

North Carolina Outward Bound School

Asheville, North Carolina

Auditor Communications

Years Ended March 31, 2019 and 2018



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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, 2019, and have issued our report thereon dated October 4, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *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 letter to you dated January 23, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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. As described in Note A, the Organization changed accounting policies related to the classification of restricted net assets by adopting FASB Accounting Standards Update (ASU) No. 2016-14, in the year ended March 31, 2019. Accordingly, the accounting change has been retrospectively applied to the prior period as if the policy had always been used. 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.

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 line of credit payable in Note H of the financial statements, the disclosure regarding bank notes payable in Note I, disclosures regarding net asset designations and restrictions, endowments and release of those restrictions in Notes J, K, and L. 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. The following material misstatements detected as a result of audit procedures were corrected by management:

An adjustment to correct accounts receivable in the amount of \$203,011. An adjustment to correct the balance of permanently restricted and temporarily restricted net assets in the amount of \$200,000. Two adjustments to correct the balance of revenue and deferred revenue in the amounts of \$367,274 and \$82,109. An adjustment to fixed assets in the amount of \$97,265.

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

New Revenue Recognition Standard

The FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This new standard is intended to provide an industry-neutral revenue recognition model to enable users of financial statements increased comparability across companies and industries. The new standard eliminates all transaction and industry specific guidance considered Generally Accepted Accounting Principles and replaces it with a principles-based approach for determining how and when to recognize revenue. Revenue will be recognized when an Organization satisfies a performance obligation by transferring a promised good or service to a customer. New disclosure requirements will also be required to enable a user of the financial statements to understand the contracts with the customers, the judgements made

by management, and the assets recognized from the cost to obtain or fulfill contract. ASU 2014-09 is effective for annual financial statements issued for fiscal year ending in 2020.

Non-profit Reporting Standards Update

The FASB issued ASU 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This new standard is intended to clarify and improve the scope and accounting guidance for contributions received and made by non-profit organizations. The main provisions of the standard provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction and offers additional guidance on how to determine whether a contribution is conditional. The improved guidance on distinguishing contributions from exchange transactions could result in more grants and contracts being accounted for as contributions than under current GAAP. For this reason, clarifying the guidance about whether a contribution is conditional is important because that affects the timing of contribution revenue (or expense) recognition. ASU 2018-08 is effective for annual financial statements issued for fiscal year ending in 2020.

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

October 4, 2019

Client: **06227 - North Carolina Outward Bound School**
Engagement: **06227 - North Carolina Outward Bound School**
Trial Balance: **3000.00 - TB**
Workpaper: **3700.10 - Passed Journal Entries Report**

Account	Description	Debit	Credit
Passed Journal Entries JE # 7			
Passed journal entry to correct balance of accounts payable to agree to open invoice report as of 3/31/19			
01-5465-110-101	MISCELLANEOUS	9,955.95	
01-2101-110-000	TRADE ACCOUNTS PAYABLE		9,955.95
Total		9,955.95	9,955.95
Passed Journal Entries JE # 18			
PAJE to record workers compensation expense			
01-5130-110-101	WORKMANS COMP INSURANCE - G & A	26,493.61	
01-2106-110-000	Accounts Payable - recorded without the AP Module		26,493.61
Total		26,493.61	26,493.61
Passed Journal Entries JE # 27			
Reverse east lake pledge write off			
01-1225-110-000	PLEDGES RECEIVABLE	16,700.00	
01-5445-110-170	BAD DEBT EXPENSE DEVELOPMENT		16,700.00
Total		16,700.00	16,700.00
Passed Journal Entries JE # 73			
To apply Siler contribution to pledge balance			
03-4600-110-170	CONTRIBUTIONS - Vanguard	15,000.00	
03-1225-110-000	PLEDGES RECEIVABLE		15,000.00
Total		15,000.00	15,000.00
Passed Journal Entries JE # 74			
To adjust vanguard balance to actual as of 3/31/2019			
02-1184-110-000	Vanguard - Endowment Fund	5,064.86	
02-4931-110-101	Unrealized Gain / Loss - Endowments		5,064.86
Total		5,064.86	5,064.86
Passed Journal Entries JE # 78			
Adjusting entry to agree net assets released from restriction spreadsheet to GL			
01-4830-110-101	MISCELLANEOUS INCOME	34,556.35	
02-2159-110-000	Due To Unrestricted Fund	34,556.35	
01-1228-110-000	Due To/ From Restricted		34,556.35
02-5991-110-101	NARR RESTRICTED OPERATING		34,556.35
Total		69,112.70	69,112.70
Passed Journal Entries JE # 79			
To record BB&T interest income transfer from temporarily restricted to unrestricted through NARR to appropriately release the fund			
01-4701-110-101	INTEREST & DIVIDEND INCOME	5,135.81	
01-4701-110-101	INTEREST & DIVIDEND INCOME	52,577.81	
02-5991-110-101	NARR RESTRICTED OPERATING	5,135.81	
02-5991-110-101	NARR RESTRICTED OPERATING	52,577.81	
01-4991-110-101	NARR - OPERATING		5,135.81
01-4991-110-101	NARR - OPERATING		52,577.81
02-4701-110-101	INTEREST INCOME		5,135.81
02-4701-110-101	INTEREST INCOME		52,577.81
Total		115,427.24	115,427.24
Passed Journal Entries JE # 80			
To record depreciation expense on items put into service this year but not in fixed asset module.			
01-5475-110-101	DEPRECIATION	15,024.53	
01-1730-110-000	ACC DEPR BUILDINGS		475.82
01-1745-110-000	ACC DEPR - FIELD EQUIPMENT		3,079.22
01-1750-110-000	ACC DEPR AUTOS & BOATS		11,469.49
Total		15,024.53	15,024.53
Passed Journal Entries JE # 81			
to correct balance in employee reimbursement account			
01-5465-110-101	MISCELLANEOUS	43,803.09	
01-1514-110-000	Employee Expense Reimbursement		43,803.09
Total		43,803.09	43,803.09
Passed Journal Entries JE # 84			
PAJE to reclass Atlanta public school revenue into proper account and to record prior year deferred revenue and recognize it in the current year, and to correct accounts receivable for amount of contract still outstanding at year end.			
01-1220-110-000	Atlanta Public School Receivable	15,000.00	
01-2212-110-124	DEFERRED TUITION YOUTH CONTRACTS	36,000.00	
01-3100-110-000	UNRESTRICTED NET ASSETS	36,000.00	
01-4123-126-101	YOUTH CONTRACT TUITION - ATL APS	8,440.00	
01-2212-110-124	DEFERRED TUITION YOUTH CONTRACTS		8,440.00
01-2212-110-124	DEFERRED TUITION YOUTH CONTRACTS		36,000.00
01-4123-126-101	YOUTH CONTRACT TUITION - ATL APS		15,000.00
01-4123-126-101	YOUTH CONTRACT TUITION - ATL APS		36,000.00
Total		95,440.00	95,440.00



Internal Control Related Matters

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, 2019, 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 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 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 October 4, 2019 on the financial statements of North Carolina Outward Bound School or our compliance reports and internal control findings dated October 4, 2019.

We noted a number of improvements from the prior year regarding internal controls and applaud the efforts of the finance department and management in further developing the finance team and implementing procedures to reduce the findings reported in the prior year.

Inadequate Segregation of Duties

While documenting internal controls relating to the general ledger, we noted inconsistent formal approval of transactions related to executive level expense reports, contributions, pledges receivable and net asset releases from restriction. In addition, certain disbursements, receipts, and net asset releases from restriction lacked supporting documentation. We also noted that Program Directors and the Director of At-Risk Programs at the Florida basecamps have the ability to approve vendors and write checks without additional approval by the Finance Department. We noted that not all donor acknowledgement forms are signed to indicate confirmation of donor intent.

We found that there are a limited number of personnel for certain accounting functions and there has not been sufficient cross training for unanticipated absences. There is a lack of formalized internal

control over internal financial reporting and closeout procedures. As a result, errors and misstatements in financial reporting could occur or unauthorized transactions could be recorded without adequate oversight. We also found a lack of timely reconciliations which greatly increases the risk of errors or misstatements in financial reporting.

The School should consider identifying appropriate staff to provide secondary approvals as the new finance staff establish and formalize their monthly closeout procedures. Policies and procedures should be implemented that require reconciliations be prepared and balanced to the general ledger control accounts on a monthly basis. Policies and procedures should be implemented that document approval and review of accounting transactions. We also recommend departmental cross training to enable seamless continuity in the event of a change in key personnel.

Conflict of Interest Statements

We found that a conflict of interest statement is required to be signed by members of the Board of Directors annually, however a conflict of interest statement was not obtained from members of the Board of Directors in the year under audit in accordance with this policy. We recommend that the policy be adhered to so that no member of the Organization's Board of Directors shall derive any personal profit or gain, directly or indirectly, by reason of their participation with the Organization.

Compliance Reporting

We noted during our tests over compliance that although all required reports were submitted that one quarterly report was not submitted by the due date as required by the Florida Department of Juvenile Justice contract #10099. We recommend that a system be implemented which both ensures the timely submission of reports and which documents the timely submission of reports.

This communication is intended solely for the information and use of the Board of Directors, management and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

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

October 4, 2019

North Carolina Outward Bound School
Asheville, North Carolina

Compliance Reports
Year Ended March 31, 2019



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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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2019.

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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, responses, and questioned costs as item 2019-001 that we consider to be a material weakness.

Johnson Price Sprinkle PA

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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*.

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, responses, 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

October 4, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR STATE PROGRAM 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 Program

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 programs for the year ended March 31, 2019. North Carolina Outward Bound School's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings, responses, and questioned costs.

Management's Responsibility

Management is responsible for compliance with Florida State Statutes, regulations, and the terms and conditions of its state awards.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of North Carolina Outward Bound School's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *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 program 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 program. However, our audit does not provide a legal determination of North Carolina Outward Bound School's compliance.

Opinion on Each Major State Program

In our opinion, the 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 each of its major state programs for the year ended March 31, 2019.

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 program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal controls over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance described in the accompanying schedule of findings, responses, and questioned costs as item 2019-002 that we consider 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, responses, 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, 2019, and have issued our report thereon dated October 4, 2019. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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

October 4, 2019

North Carolina Outward Bound School

Schedule of Findings, Responses, and Questioned Costs

Year Ended March 31, 2019

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 – Florida

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: Unmodified

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 80.029 Department of Juvenile Justice –
Delinquency Prevention

The threshold for distinguishing Type A and Type B programs was \$339,702.

North Carolina Outward Bound School

Schedule of Findings, Responses, and Questioned Costs – continued

Year Ended March 31, 2019

Section II Financial Statement Findings

MATERIAL WEAKNESS

Finding 2019-001 Inadequate design and implementation of internal control over financial reporting.

Criteria: Management should have a system in place to reduce the likelihood of errors or misstatements in financial reporting.

Condition: Due to repeated turnover of key financial personnel, there are inherent limitations of segregation of duties and accurate financial reporting. Account reconciliations were not prepared and balanced to the general ledger in a timely manner during the year resulting in the need for a significant number of audit adjustments. Program expenses were not allocated based on function in accordance with the established policies. Throughout the year there was inconsistent formal review and approval of purchases, disbursements, journal entries, and internal accounting reports. There was a lack of documentation to support the original restriction on assets with donor restriction and a lack of documentation to support the release of such assets when restrictions are satisfied.

Context: While documenting internal controls relating to the general ledger, including journal entries, we noted that during year the Controller or Finance Assistant prepared all journal entries, without being formally approved by the Finance Officer or the Executive Director. When the current CFO was hired in February 2019, the School put a policy in place to review all journal entries. There is inconsistent formal review or approval of pledges receivable schedules, deferred revenue schedules, or balance sheet reconciliations. Cash accounts had transactions entered subsequent to approval of the bank reconciliations. A significant number of journal entries were required to be made to the trial balance to provide a reasonable assurance that the financial statements were not materially misstated. The functional expense allocation did not allocate all expenses that we would expect to see allocated based on established policies. During testing of net assets released from donor restriction, we noted that documentation to support some releases from restriction could not be located.

Cause: At times during the year there were a limited number of personnel for certain accounting functions and there has been no cross training or procedures put into place for unanticipated absences. There was a lack of formalized internal control over internal financial reporting. A timely closeout of the year was not completed.

Effect: Errors and misstatements in financial reporting could occur. Transactions could be recorded without adequate oversight. Lack of timely reconciliations greatly increases the risk of errors or misstatements in financial reporting, not only at year end but throughout the year.

North Carolina Outward Bound School

Schedule of Findings, Responses, and Questioned Costs – continued

Year Ended March 31, 2019

Section II Financial Statements Findings - continued

Recommendation: Alternative controls should be developed to compensate for any lack of segregation of duties. Policies and procedures should be implemented and formally documented that require releases from donor restrictions to be formally documented, require reconciliations be prepared and balanced to the general ledger control accounts on a monthly basis, and require functional expenses to be allocated monthly to enable timely and accurate interim financial reporting.

Policies and procedures should be implemented and formally documented that require approval and review of accounting transactions and journal entries. We also recommend departmental cross training to enable seamless continuity in the event of a change in key personnel.

Views of responsible
officials and planned

corrective actions: Management agrees with the inherent limitations of segregation of duties due to the turnover of key personnel during the year. The corrective plan for this began prior to the end of the fiscal year with management's decision to increase staffing in the finance department, as well as implement certain controls such as journal entry and monthly internal financial statement review, and consistent balance sheet reconciliations in order to consistently provide reliable and accurate financial statements in all material respects. The corrective plan implemented led to the identification and correction of the vast majority of the adjusting journal entries for the current fiscal year by the finance department during their year-end reconciliations.

North Carolina Outward Bound School

Schedule of Findings, Responses, and Questioned Costs – continued

Year Ended March 31, 2019

Section III State Award Findings

Department of Juvenile Justice

Program Name: Delinquency Prevention

CSFA #: 80.029

Finding 2019-002 Allowable Costs

SIGNIFICANT DEFICIENCY

Criteria: In accordance with the Florida State Single Audit Act the entity must establish and maintain effective internal control over grant awards. Per the State Projects Compliance Supplement allowable costs under contract include all costs directly related to serve identified youth and permissible under the Guide of State Expenditures. Costs must be necessary and reasonable, authorized and not prohibited, adequately documented, and not used to support either religious or anti-religious activities.

Condition: During allowable costs testing, we noted three instances out of a sample of ninety-eight transactions where disbursement lacked required documentation of formal approval. This results in an estimate of sixty-four transaction when extended to the total population of two thousand eighty one transactions

Effect: Lack of proper implementation of internal control policies greatly increases the risk of an error or irregularity being undetected and can result in undetected noncompliance with grant requirements.

Cause: An oversight of the documentation of the formal approval and review of the completeness of supporting documentation for allowable costs.

Questioned cost: \$0.

Context: The amount of questioned costs is \$0; all expenditures were deemed to be allowable.

Recommendation: Controls should be developed and implemented to ensure that program expenditures have proper management approval.

Views of responsible officials and planned

corrective actions: Management believes that the implementation of proper expense review, as well as staff education will ensure that program expenditures have proper management approval.

North Carolina Outward Bound School

Corrective Action Plan

Year Ended March 31, 2019

Corrective Action Plan

Section II Financial Statement Findings

Material weakness
Finding 2019-001

Name of contact person: Mike Smith, Chief Financial Officer

Corrective action: The corrective plan for this began prior to the end of the fiscal year with management's decision to increase staffing in the finance department, as well as implement certain controls such as journal entry and monthly internal financial statement review, and consistent balance sheet reconciliations in order to consistently provide reliable and accurate financial statements in all material respects. The corrective plan implemented led to the identification and correction of the vast majority of the AJEs for the current fiscal year by the finance department during their year-end reconciliations.

Proposed completion date: Completed

Section III State Award Findings

Significant deficiency
Finding: 2019-002

Name of contact person: Mike Smith, Chief Financial Officer

Corrective action: Management believes that the implementation of proper expense review, as well as staff education will ensure that program expenditures have proper management approval.

Proposed completion date: Completed

North Carolina Outward Bound School

Summary Schedule of Prior Audit Findings

Year Ended March 31, 2019

Finding 2018-001

Status: Finding was repeated as 2019-001.

Finding 2018-002

Status: Corrected

Finding 2018-003

Status: Corrected

Finding 2018-004

Status: Corrected

Finding 2018-005

Status: Finding was repeated as 2019-002.

North Carolina Outward Bound School

Schedule of Expenditures of Federal and State Awards

Year Ended March 31, 2019

Federal/State Agency, Pass-through Entity, Federal Programs/State Program	CFDA/CSFA Number	Contract/ Grant No.	Expenditures
FEDERAL AWARDS			
U.S. Department of Agriculture			
Pass-Through State of Florida Department of Education National School Lunch Program	10.555		\$ 15,823
Total U.S. Department of Agriculture			15,823
Total Expenditures of Federal Awards			15,823
STATE AWARDS			
State of Florida Department of Juvenile Justice			
Delinquency Prevention	80.029	10099	1,132,341
Total State of Florida Department of Juvenile Justice			1,132,341
Total Expenditures of State Awards			1,132,341
Total Expenditures of Federal and State Awards			\$ 1,148,164

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity 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

Financial Statements
Years Ended March 31, 2019 and 2018

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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019, 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 the effectiveness of North Carolina Outward Bound School's 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

October 4, 2019

North Carolina Outward Bound School

Statements of Financial Position

March 31,	2019	2018
Assets		
Cash and cash equivalents	\$ 1,204,361	\$ 3,603,903
Accounts receivable	349,452	221,289
Grants receivable	122,381	203,011
Contributions and pledges receivable, net	977,380	1,518,816
Inventories	19,043	17,044
Prepaid expenses	47,318	69,399
Property and equipment, net	2,419,233	2,342,457
Long-term investments	19,930,308	17,826,275
Cash value of life insurance	8,949	13,581
Total assets	\$ 25,078,425	\$ 25,815,775
Liabilities and Net Assets		
Liabilities:		
Line of credit payable	\$ 325,000	\$ 749,614
Accounts payable	394,300	671,792
Accrued expenses	52,709	88,864
Deferred revenue	863,846	803,830
Notes payable	1,841,489	1,189,197
Capital leases	272,330	328,830
Total liabilities	3,749,674	3,832,127
Net assets:		
Without donor restrictions	(51,834)	(270,021)
With donor restrictions	21,380,585	22,253,669
Total net assets	21,328,751	21,983,648
Total liabilities and net assets	\$ 25,078,425	\$ 25,815,775

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

North Carolina Outward Bound School

Statement of Activities

Year Ended March 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and revenue:			
Tuition and scholarships	\$ 5,195,279	\$ 356,945	\$ 5,552,224
Contributions	550,370	651,051	1,201,421
Federal and state grants	1,148,164	-	1,148,164
Other grants	-	187,714	187,714
Interest and dividends, net	60,100	380,919	441,019
Net gains (losses) on investments	(1,159)	209,232	208,073
Gain (loss) on sale of equipment	522	-	522
Investment income – LLC	820	-	820
School district income	80,391	-	80,391
Student cancelation insurance	31,350	-	31,350
Transportation fees	126,453	-	126,453
Other revenue	165,293	-	165,293
Net assets released from restriction:			
Building acquisition restrictions	309,809	(309,809)	-
Equipment acquisition restrictions	242,571	(242,571)	-
Program and support restrictions	2,090,309	(2,090,309)	-
Total support and revenue	10,000,272	(856,828)	9,143,444
Expenses:			
School program services:			
Program delivery	5,402,248	-	5,402,248
Atlanta programming	154,402	-	154,402
Program administrative	1,478,282	-	1,478,282
Total school program services	7,034,932	-	7,034,932
Supporting services:			
General and administrative	1,238,754	-	1,238,754
Marketing	599,507	-	599,507
Student services	458,713	-	458,713
Professional program sales	92,650	-	92,650
Development	373,785	-	373,785
Total supporting services	2,763,409	-	2,763,409
Total expenses	9,798,341	-	9,798,341
Change in net assets	201,931	(856,828)	(654,897)
Net assets, beginning of year	(270,021)	22,253,669	21,983,648
Changes in classes of net assets	16,256	(16,256)	-
Net assets, end of year	\$ (51,834)	\$ 21,380,585	\$ 21,328,751

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

North Carolina Outward Bound School

Statement of Activities

Year Ended March 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Totals
Support and revenue:			
Tuition and scholarships	\$ 5,071,879	\$ 323,020	\$ 5,394,899
Contributions	427,689	1,963,973	2,391,662
Capital campaign contributions	-	721,121	721,121
Federal and state grants	1,100,472	-	1,100,472
Other grants	-	195,460	195,460
Interest and dividends, net	5,403	334,232	339,635
Net gains (losses) on investments	-	1,258,605	1,258,605
Gain (loss) from Hurricane	51,504	-	51,504
Gain (loss) on sale of equipment	(61)	-	(61)
Investment income – LLC	225	-	225
School district income	69,988	-	69,988
Student cancelation insurance	32,625	-	32,625
Transportation fees	104,060	-	104,060
Other revenue	89,207	-	89,207
Net assets released from restriction:			
Building acquisition restrictions	405,336	(405,336)	-
Equipment acquisition restrictions	835,391	(835,391)	-
Program and support restrictions	2,161,353	(2,161,353)	-
Total support and revenue	10,355,071	1,394,331	11,749,402
Expenses:			
School program services:			
Program delivery	5,342,161	-	5,342,161
Atlanta programming	174,569	-	174,569
Program administrative	1,378,501	-	1,378,501
Total school program services	6,895,231	-	6,895,231
Supporting services:			
General and administrative	1,020,783	-	1,020,783
Marketing	644,674	-	644,674
Student services	466,577	-	466,577
Professional program sales	93,842	-	93,842
Development	778,925	-	778,925
Total supporting services	3,004,801	-	3,004,801
Total expenses	9,900,032	-	9,900,032
Change in net assets	455,039	1,394,331	1,849,370
Net assets, beginning of year	(725,060)	20,859,338	20,134,278
Net assets, end of year	\$ (270,021)	\$ 22,253,669	\$ 21,983,648

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

North Carolina Outward Bound School

Statement of Functional Expenses

Year Ended March 31, 2019

	School Program Services			Total School Program Services
	Program Delivery	Atlanta Programming	Program Administrative	
Salaries and wages	\$ 1,881,356	\$ 94,087	\$ 851,633	\$ 2,827,076
Benefits and payroll taxes	227,104	21,089	90,370	338,563
Total	2,108,460	115,176	942,003	3,165,639
Bad debt expense	-	-	38,613	38,613
Bank and brokerage fees	-	-	-	-
Board meetings	-	-	-	-
Charter and other fees	-	471	20,605	21,076
Consulting	-	-	37,933	37,933
Contract instruction	118,365	-	4,277	122,642
Dues and subscriptions	941	-	189	1,130
Education and training	7,051	590	25,406	33,047
Food and kitchen supplies	294,714	57	-	294,771
Gifts and awards	-	-	3,349	3,349
Insurance	387,906	4,297	641	392,844
Interest	959	-	-	959
Lease and equipment rental	120,408	1,800	-	122,208
Marketing and advertising	-	-	3,898	3,898
Miscellaneous	65,908	-	342	66,250
Postage and freight	2,297	169	1,602	4,068
Printing, photography and production	2,276	23	1,043	3,342
Professional fees	7,537	-	14,378	21,915
Recons and program development	-	-	-	-
Repairs and maintenance	97,597	12,921	927	111,445
Special programs	-	-	194,210	194,210
Supplies	172,855	866	8,700	182,421
Taxes	18,463	-	-	18,463
Travel and vehicle	360,121	16,228	18,990	395,339
User fees	100,170	-	-	100,170
Utilities	121,833	1,804	3,624	127,261
Total expenses before scholarships and depreciation	3,987,861	154,402	1,320,730	5,462,993
Scholarships	1,348,056	-	-	1,348,056
Total expenses before depreciation	5,335,917	154,402	1,320,730	6,811,049
Depreciation	66,331	-	157,552	223,883
Total expenses	\$ 5,402,248	\$ 154,402	\$ 1,478,282	\$ 7,034,932

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

Supporting Services							
General and Administrative	Marketing	Student Services	Professional Program Sales	Development	Total Supporting Services	Totals	
\$ 491,299	\$ 160,809	\$ 334,713	\$ 71,550	\$ 216,074	\$ 1,274,445	\$ 4,101,521	
40,462	29,054	54,083	13,505	35,288	172,392	510,955	
531,761	189,863	388,796	85,055	251,362	1,446,837	4,612,476	
-	-	-	-	-	-	38,613	
9,429	-	60,092	-	-	69,521	69,521	
18,726	-	-	-	-	18,726	18,726	
13,165	329,554	-	-	-	342,719	363,795	
-	-	-	-	30,120	30,120	68,053	
-	-	-	-	-	-	122,642	
3,243	-	-	-	1,270	4,513	5,643	
395	-	-	1,153	4,845	6,393	39,440	
-	-	-	-	-	-	294,771	
1,582	-	-	-	11,138	12,720	16,069	
48,305	1,420	2,387	720	2,326	55,158	448,002	
100,643	-	-	-	-	100,643	101,602	
22,302	-	-	-	-	22,302	144,510	
-	5,124	-	-	-	5,124	9,022	
135,129	162	187	179	5,565	141,222	207,472	
1,930	3,996	1,519	20	6,333	13,798	17,866	
-	7,140	198	-	46,769	54,107	57,449	
138,511	1,528	-	-	-	140,039	161,954	
-	608	-	-	-	608	608	
72,748	-	-	-	-	72,748	184,193	
-	-	-	-	-	-	194,210	
39,657	451	897	2,510	173	43,688	226,109	
-	-	-	-	-	-	18,463	
33,860	58,101	2,166	3,009	12,444	109,580	504,919	
-	-	-	-	-	-	100,170	
22,142	1,560	2,471	4	1,440	27,617	154,878	
1,193,528	599,507	458,713	92,650	373,785	2,718,183	8,181,176	
-	-	-	-	-	-	1,348,056	
1,193,528	599,507	458,713	92,650	373,785	2,718,183	9,529,232	
45,226	-	-	-	-	45,226	269,109	
\$ 1,238,754	\$ 599,507	\$ 458,713	\$ 92,650	\$ 373,785	\$ 2,763,409	\$ 9,798,341	

North Carolina Outward Bound School

Statement of Functional Expenses

Year Ended March 31, 2018

	School Program Services			Total School Program Services
	Program Delivery	Atlanta Programming	Program Administrative	
Salaries and wages	\$ 1,812,653	\$ 107,784	\$ 827,258	\$ 2,747,695
Benefits and payroll taxes	258,835	25,305	79,820	363,960
Total	2,071,488	133,089	907,078	3,111,655
Bad debt expense	-	-	78,413	78,413
Bank and brokerage fees	-	-	-	-
Board meetings	-	-	-	-
Charter and other fees	-	7,590	45,803	53,393
Consulting	-	-	36,692	36,692
Contract instruction	106,685	-	6,134	112,819
Dues and subscriptions	1,080	-	189	1,269
Education and training	4,427	4,632	9,100	18,159
Food and kitchen supplies	324,884	259	-	325,143
Gifts and awards	-	-	3,616	3,616
Insurance	358,326	3,817	1,434	363,577
Interest	5,396	-	9,928	15,324
Lease and equipment rental	159,111	1,800	2,168	163,079
Marketing and advertising	-	-	1,556	1,556
Miscellaneous	13,872	924	11,237	26,033
Operating grant used	2,918	-	-	2,918
Postage and freight	2,635	259	630	3,524
Printing, photography and production	8,532	268	877	9,677
Professional fees	10,290	-	19,734	30,024
Recons and program development	-	-	5,093	5,093
Repairs and maintenance	69,553	4,993	3,478	78,024
Special programs	-	-	72,262	72,262
Supplies	180,687	439	5,449	186,575
Taxes	18,352	-	-	18,352
Travel and vehicle	319,825	14,065	21,209	355,099
User fees	93,066	-	-	93,066
Utilities	128,625	2,434	3,392	134,451
Total expenses before scholarships and depreciation	3,879,752	174,569	1,245,472	5,299,793
Scholarships	1,394,809	-	-	1,394,809
Total expenses before depreciation	5,274,561	174,569	1,245,472	6,694,602
Depreciation	67,600	-	133,029	200,629
Total expenses	\$ 5,342,161	\$ 174,569	\$ 1,378,501	\$ 6,895,231

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

Supporting Services							
General and Administrative	Marketing	Student Services	Professional Program Sales	Development	Total Supporting Services	Totals	
\$ 380,151	\$ 166,560	\$ 307,563	\$ 64,933	\$ 217,907	\$ 1,137,114	\$ 3,884,809	
93,260	34,165	48,823	12,915	21,965	211,128	575,088	
473,411	200,725	356,386	77,848	239,872	1,348,242	4,459,897	
-	-	-	-	20,000	20,000	98,413	
12,002	-	73,082	-	7	85,091	85,091	
13,052	-	-	-	-	13,052	13,052	
40,450	339,515	-	-	-	379,965	433,358	
-	-	-	-	103,558	103,558	140,250	
-	-	3,200	-	-	3,200	116,019	
3,648	-	-	-	4,328	7,976	9,245	
428	-	21	620	60	1,129	19,288	
-	-	-	-	-	-	325,143	
5,616	-	-	-	18,598	24,214	27,830	
43,428	2,885	4,022	1,327	3,244	54,906	418,483	
48,432	-	10,559	2,744	8,451	70,186	85,510	
4,606	579	1,440	374	145,659	152,658	315,737	
-	26,492	-	-	-	26,492	28,048	
52,326	983	156	(413)	27,977	81,029	107,062	
-	-	-	-	-	-	2,918	
8,745	884	1,735	27	13,392	24,783	28,307	
-	10,776	198	-	124,675	135,649	145,326	
167,420	786	-	-	40	168,246	198,270	
-	832	-	-	-	832	5,925	
33,704	1,211	3,027	787	2,423	41,152	119,176	
-	-	-	-	-	-	72,262	
49,123	339	953	4,178	43,426	98,019	284,594	
-	-	-	-	-	-	18,352	
17,319	53,757	2,328	3,940	15,685	93,029	448,128	
-	-	-	-	-	-	93,066	
21,621	2,164	2,612	624	2,038	29,059	163,510	
995,331	641,928	459,719	92,056	773,433	2,962,467	8,262,260	
-	-	-	-	-	-	1,394,809	
995,331	641,928	459,719	92,056	773,433	2,962,467	9,657,069	
25,452	2,746	6,858	1,786	5,492	42,334	242,963	
\$ 1,020,783	\$ 644,674	\$ 466,577	\$ 93,842	\$ 778,925	\$ 3,004,801	\$ 9,900,032	

North Carolina Outward Bound School

Statements of Cash Flows

Years Ended March 31,	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (654,897)	\$ 1,849,370
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Gain) loss on sale of equipment	(522)	61
Depreciation	269,109	242,963
Change in cash surrender value of life insurance	4,632	8,848
Increase (decrease) in discount on pledges receivable	(66,089)	(52,356)
Contributions restricted for long-term investment	(283,457)	(1,289,977)
Net realized (gain) loss on long-term investments	(177,720)	(69,319)
Net unrealized (gain) loss on long-term investments	(30,353)	(1,189,286)
Change in assets and liabilities:		
Accounts receivable	(128,163)	38,904
Grants receivable	80,630	(81,784)
Contributions and pledges receivable	607,525	110,024
Inventories	(1,999)	11,117
Prepaid expenses	22,081	(29,341)
Accounts payable	(277,492)	465,186
Accrued expenses	(36,155)	(4,132)
Deferred revenue	60,016	(42,040)
Net cash used in operating activities	(612,854)	(31,762)
Cash flows from investing activities:		
Proceeds from sale of long-term investments	1,091,150	560,293
Acquisition of long-term investments	(2,987,110)	(1,810,056)
Acquisition of property and equipment	(316,833)	(759,946)
Net cash used in investing activities	(2,212,793)	(2,009,709)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	283,457	1,289,977
Other financing activities:		
Proceeds from line of credit payable	325,000	287,000
Repayment of line of credit payable	5,386	-
Repayment of notes payable	(102,708)	(76,365)
Repayment of capital leases	(85,030)	(76,411)
Net cash provided by financing activities	426,105	1,424,201
Net decrease in cash and cash equivalents	(2,399,542)	(617,270)
Cash and cash equivalents, beginning of year	3,603,903	4,221,173
Cash and cash equivalents, end of year	\$ 1,204,361	\$ 3,603,903
Supplemental disclosures of cash flow information:		
Acquisition of equipment through capital leases	\$ 28,530	\$ 31,278
Noncash refinancing of line of credit and notes payable	\$ 755,000	\$ -
Cash payments for interest	\$ 101,602	\$ 74,662

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

North Carolina Outward Bound School

Notes to Financial Statements

March 31, 2019 and 2018

Note A – Organization and summary of significant accounting policies:

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.

Major Programs:

Program delivery – North Carolina Outward Bound School wilderness programs are designed for youth, adults, school groups, struggling teens and young adults, corporate teams, military veterans and educators. They are offered in North Carolina's mountains and Outer Banks, Florida's Everglades and rivers, South America's Patagonia region, and in Atlanta with partner schools. With common elements of challenge and adventure, learning through experience, and a supportive group environment, students of all ages learn to persevere and soon realize they are capable of so much more than they ever thought possible. They learn to communicate effectively, lead a group of their peers and practice compassion as they work with their crew to accomplish goals. All programs embody the timeless, founding Pillars of Outward Bound – self-reliance, fitness, craftsmanship, and above all, compassion.

Atlanta programming – A wide range of leadership development and team-building programs delivered to groups of elementary, middle and high school students in Metro Atlanta.

Program administrative – Program administrative refers to the underlying structure that supports the delivery of all programs. This structure also ensures operational success of programs into future years by providing training, equipment, and other resources.

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.

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.

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

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

Cash and cash 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.

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, 2019 and 2018.

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 4.5% as of March 31, 2019 and 2018, respectively. The amount of the allowance for uncollectible pledges receivable is \$-0- as of March 31, 2019 and 2018.

Inventories

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

Property and equipment

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:

Buildings and site improvements	15–30 years
Furniture, fixtures and equipment	5 years
Vehicles and boats	5 years
Computer software	3 years

Investments

The majority of the School's investments are carried at fair value. Realized and unrealized gains and losses are reflected in the statement of activities.

The School also holds an investment in Outward Bound Services Group II, LLC which is accounted for using the equity method. The School's net income includes its proportionate share of net income or loss of equity investees.

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

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

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.

Deferred revenue

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

Net assets

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:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - 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 or maintained permanently by the School. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions

Contributions received are recorded as support without donor restrictions or with donor restrictions, depending on the existence and/or nature of donor restrictions.

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

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

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

Contributions – continued

The School reports contributions of property and equipment as support without donor restrictions 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 support with donor restrictions. 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 support without donor restrictions. Pledges for support of future operations and property and equipment acquisitions are recorded as support with donor restrictions.

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.

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).

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

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

Endowments – continued

The School targets a diversified asset allocation with 60 percent to 80 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.

Advertising

The School uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled \$9,022 and \$28,048 for the years ended March 31, 2019 and 2018, respectively.

Functional allocation of expenses

The cost of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes

The School is an organization exempt from federal 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 2018 and 2017. Currently, the statute of limitations remains open subsequent to and including tax year 2015; 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, 2019 and 2018

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

New accounting pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The School has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative year presented. The new standard changes the following aspects of the School's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net assets class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note B).

Reclassifications

Certain amounts for the year ended March 31, 2018 have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income for the year ended March 31, 2018.

Note B – Liquidity and availability of financial assets:

The School monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The School has the following financial assets that could readily be made available within one year of the balance sheet to fund expenses without limitations:

	2019	2018
Cash and cash equivalents without donor restrictions	\$ 560,392	\$ 544,453
Investments: operating	103,441	103,780
Accounts receivable, net	349,452	221,289
Grants receivable, net	122,381	203,011
Pledges receivable, without donor restrictions	16,916	26,022
	1,152,582	1,098,555
Add available line of credit	500,000	250,386
	\$ 1,652,582	\$ 1,348,941

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note B – Liquidity and availability of financial assets – continued:

In addition to financial assets available to meet general expenditures over the year, the School operates with a balanced budget and anticipates covering its general expenditures by collecting sufficient tuition and other revenues, by utilizing donor-restricted resources from current and prior years gifts and by appropriating the investment return on its board-designated and donor-restricted endowments, as needed.

Note C – Cash and cash equivalents:

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

	2019	2018
Operating without donor restrictions	\$ 543,187	\$ 538,770
Grant programs without donor restrictions	12,349	1,001
Base camps checking without donor restrictions	1,903	2,380
Petty cash without donor restrictions	2,953	2,303
Total cash without donor restrictions	560,392	544,454
Cash with donor restrictions	643,969	3,059,449
	\$ 1,204,361	\$ 3,603,903

Note D – Contributions and pledges receivable, net:

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

	2019	2018
Receivable in less than one year	\$ 543,680	\$ 589,659
Receivable in one to five years	486,331	1,047,877
Total uncollected contributions and pledges	1,030,011	1,637,536
Discount to net present value (4.5%)	(52,631)	(118,720)
	\$ 977,380	\$ 1,518,816

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note D – Contributions and pledges receivable, net – continued:

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:

	2019	2018
Without donor restrictions	\$ 16,916	\$ 26,023
With donor restrictions	960,464	1,492,793
	\$ 977,380	\$ 1,518,816

Note E – Inventories:

Inventories as of March 31 consist of the following:

	2019	2018
Field food	\$ 14,778	\$ 7,226
Kitchen food	2,509	6,178
Books	1,756	3,640
	\$ 19,043	\$ 17,044

Note F – Property and equipment, net:

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

	2019	2018
Land	\$ 269,806	\$ 269,806
Site improvements	1,231,562	1,231,562
Buildings	4,148,201	4,129,972
Furniture, fixtures and equipment	1,264,420	1,241,398
Vehicles and boats	1,355,306	1,262,962
Construction in progress	278,147	65,856
	8,547,442	8,201,556
Less accumulated depreciation	6,128,209	5,859,099
	\$ 2,419,233	\$ 2,342,457

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note G – Long-term investments:

The cost, including reinvested dividends, and market value of long-term investments as of March 31, 2019 are as follows:

	Cost	Market Value/Equity Basis
Money market funds	\$ 2,726,118	\$ 2,726,118
Stocks	2,581	2,814
Fixed income mutual funds	4,987,980	5,058,661
Agency endowments with Community Foundations	660,317	896,082
Equity mutual funds	9,029,209	11,143,192
Long-term investments – fair value	17,406,205	19,826,867
Partnership – equity method	103,441	103,441
Total long-term investments	\$ 17,509,646	\$ 19,930,308

The investment in a partnership for the year ended March 31, 2019 is the investment in Outward Bound Services Group II, LLC. The ownership percentage as of March 31, 2019 is 14.78%. As mentioned in Note A, the School is using the equity method to account for this investment even though the percentage of ownership is below 20%. This is based on the significant influence consideration. The School is represented on the LLC's Board of Directors and participates in the policy making process. There have also been uses of the School's management personnel by the LLC and there are material intra-entity transactions.

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note G – Long-term investments – continued:

The cost, including reinvested dividends, and market value of long-term investments as of March 31, 2018 are as follows:

	Cost	Market Value/Equity Basis
Money market funds	\$ 277,727	\$ 277,727
Corporate fixed income instruments	5,021,157	4,993,015
Agency endowments with Community Foundations	824,319	1,068,534
Equity mutual fund	9,210,141	11,384,378
Long-term investments – fair value	15,333,344	17,723,654
Partnership – equity method	102,621	102,621
Total long-term investments	\$ 15,435,965	\$ 17,826,275

These investments are classified as follows as of March 31:

	2019	2018
Without donor restrictions	\$ 103,441	\$ 103,780
With donor restrictions	19,826,867	17,722,495
Total	\$ 19,930,308	\$ 17,826,275

Investment return for the year ended March 31, 2019 is summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 60,100	\$ 380,919	\$ 441,019
Realized gains (losses)	-	177,720	177,720
Unrealized gains (losses)	(1,159)	31,512	30,353
	\$ 58,941	\$ 590,151	\$ 649,096

Interest and dividends is net of brokerage fees and bank charges of \$37,384.

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note G – Long-term investments – continued:

Investment return for the year ended March 31, 2018 is summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 5,403	\$ 334,232	\$ 339,635
Realized gains (losses)	-	69,319	69,319
Unrealized gains (losses)	-	1,189,286	1,189,286
	\$ 5,403	\$ 1,592,837	\$ 1,598,240

Interest and dividends is net of brokerage fees and bank charges of \$36,524.

Note H – Line of credit payable:

During the year ended March 31, 2018, the School renewed an existing line of credit for \$825,000, secured by Cedar Rock Base Camp, including land and structures, which was due and payable on November 5, 2019. During the year ended March 31, 2019, the School converted \$755,000 of this line of credit to a note payable (see Note I). Interest on the line of credit is payable monthly and is charged at the Bank's Prime Rate less .5%. The interest rate as of March 31, 2019 was 5.00%. Advances outstanding under this line of credit as of March 31, 2019 and 2018 were \$325,000 and \$749,614, respectively. The line of credit was paid in full subsequent to year end.

The line of credit contains covenants requiring the School to maintain a tangible net worth of not less than \$20,000, to provide financial statements, prepared by the School, to the bank as soon as available but in no event later than 120 days after the end of the each fiscal year, and to provide audited financial statements to the bank as soon as available but in no event later than 150 days after the end of the each fiscal year. For the year end March 31, 2019, the School was in violation of the financial statement reporting requirements.. For the year ended March 31, 2018, the School was in violation of the financial statement reporting requirements. 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 years ended March 31, 2018 and 2019, respectively.

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note I – Notes payable:

During the year ended March 31, 2019, the School converted \$755,000 of their line of credit to a note payable, secured by Cedar Rock Base Camp, including land and structures with a carrying value of \$86,369 as of March 31, 2019. The obligation under the bank note payable is for monthly payments of \$6,156, including interest at 5.39%, with a balloon payment of the remaining balance due September 18, 2025. The balance as of March 31, 2019 is \$738,341.

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 \$86,369 as of March 31, 2019. The obligation under the bank note payable is for monthly payments of \$6,723, including interest at 3.67%, with a balloon payment of the remaining balance due December 8, 2021. The balance as of March 31, 2019 and 2018 is \$1,098,135 and \$1,170,174, respectively.

The School has three vehicle note payables with a vehicle credit company secured by three vehicles with a combined carrying value of \$3,965 as of March 31, 2019. The obligation under the vehicle note payables is for combined monthly payments of \$1,170, including interest at 4.40% with the final payments due during the 2019 fiscal year. The combined balance for these payables as of March 31, 2019 and 2018 is \$5,013 and \$19,023, respectively.

Maturities of the notes payable are as follows:

Year ending March 31,

2020	\$	109,534
2021		109,048
2022		995,277
2023		41,055
2024		43,323
Thereafter		543,252
<hr/>		
Total principal	\$	1,841,489

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note J – Net assets:

As of March 31, net assets without donor restrictions consist of the following:

	2019	2018
Undesignated	\$ (2,124,926)	\$ (2,264,625)
Net investment in property and equipment	2,141,890	1,994,604
	\$ 21,919	\$ (270,021)

As of March 31, net assets with donor restrictions are available for the following purposes:

	2019	2018
Capital	\$ 797,066	\$ 1,039,586
Endowment – Funds available for scholarships	561,925	772,767
Endowment – Operating	9,245	40,831
Endowment – Other	2,123,464	741,267
Endowment – Scholarships	3,683,882	3,891,762
Grants	87,101	306,967
Restricted operating	99,276	1,940,347
Scholarships	1,091,993	860,712
Endowment – Staff salary enhancement	351,519	351,519
Endowment – Scholarships and special projects	12,575,114	12,307,911
	\$ 21,380,585	\$ 22,253,669

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note K – Endowment net assets:

Changes in endowment net assets for the year ended March 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,159	\$ 18,106,057	\$ 18,107,216
Transfers	-	1,410,354	1,410,354
Earnings	-	563,920	563,920
Contributions	-	283,457	283,457
Amounts appropriated for expenditure	(1,159)	(1,058,639)	(1,059,798)
Endowment net assets, end of year	\$ -	\$ 19,305,149	\$ 19,305,149

Changes in endowment net assets for the year ended March 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,035	\$ 15,805,518	\$ 15,806,553
Transfers	-	69,854	69,854
Earnings	124	1,592,053	1,592,177
Contributions	-	1,360,633	1,360,633
Amounts appropriated for expenditure	-	(722,001)	(722,001)
Endowment net assets, end of year	\$ 1,159	\$ 18,106,057	\$ 18,107,216

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note K – Endowment net assets – continued:

As of March 31, 2019 and 2018, endowment net assets are composed entirely of donor designated endowment funds. As of March 31, 2019 and 2018, the portion of perpetual endowment funds classified as net assets with donor restrictions required by explicit donor stipulation and the School’s endowment policy is \$12,926,633 and \$12,659,430, respectively. In addition, as of March 31, 2019 and 2018, the portion of perpetual endowment funds classified as net assets with donor restrictions subject to time with purpose restrictions is \$6,369,271 and \$5,405,796, respectively, and subject to time without purpose restrictions is \$9,245 and \$40,831, respectively.

Endowment net asset reconciliation to long-term investments as of March 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, end of year	\$ -	\$ 19,305,149	\$ 19,305,149
Endowment funds, from pledges receivable	-	(373,395)	(373,395)
Non-endowment funds held in long-term investments	103,441	895,113	998,554
Long-term investments	\$ 103,441	\$ 19,826,867	\$ 19,930,308

Endowment net asset reconciliation to long-term investments as of March 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, end of year	\$ 1,159	\$ 18,106,057	\$ 18,107,216
Endowment funds, from pledges receivable	-	(524,803)	(524,803)
Non-endowment funds held in long-term investments	102,621	141,241	243,862
Long-term investments	\$ 103,780	\$ 17,722,495	\$ 17,826,275

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note L – 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:

	2019	2018
Capital (building and equipment acquisition restrictions)	\$ 552,380	\$ 1,240,727
Endowment	712,996	722,001
Grant	497,817	621,086
Restricted operations	350,936	174,375
Scholarships	528,560	643,891
Program and support restrictions	2,090,309	2,161,353
Net assets released from restriction	\$ 2,642,689	\$ 3,402,080

Note M – Capital leases:

As of the year ended March 31, 2018, the School leased seventeen vehicles under capital leases expiring in the year endings March 31, 2022 through 2024. During the year ended March 31, 2019, the School leased one additional vehicle under a capital lease expiring in the year ending March 31, 2025. 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, 2019 and 2018.

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

	2019	2018
Vehicles	\$ 520,193	\$ 491,664
Less accumulated amortization	261,026	177,155
	\$ 259,167	\$ 314,509

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note M – Capital leases – continued:

Minimum future lease payments under capital leases as of March 31, 2019 are as follows:

Year ending March 31,		
2020	\$	96,930
2021		95,902
2022		68,184
2023		25,804
2024		6,117
Thereafter		-
<hr/>		
Total minimum payments		292,937
Less amount attributable to interest		20,607
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Present value of minimum lease payments	\$	272,330

Note N – Operating leases:

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, 2037.

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, 2037.

The School leases a base camp facility in Scottsmoor, Florida. The annual calendar year charge for 2018 was \$36,086. The Scottsmoor lease was extended on January 1, 2019 and will expire on December 31, 2023.

The School also leases various office equipment for each office and basecamp. These leases have monthly payments ranging from \$48 and \$920 and will expire between the years ended March 31, 2020 and December 31, 2023.

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note N – Operating leases – continued:

The total rental expense, including one-time event rentals, and user fees included in the financial statements for the year ended March 31, 2019 are \$144,510 and \$100,170, respectively. The total rental expense and user fees included in the financial statements for the year ended March 31, 2018 are \$315,737 and \$93,066, respectively.

Minimum future lease payments as of March 31, 2019 consist of the following:

<u>Year ending March 31,</u>	
2020	\$ 64,593
2021	57,505
2022	55,583
2023	55,698
2024	42,030
	<hr/>
	\$ 275,409

Note O – Functional expenses:

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include workers compensation insurance and employee health insurance which are allocated based on the budgeted payroll of each department.

Note P – Retirement plan:

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 \$20,000 to the Plan for the years ended March 31, 2019 and 2018. Employee contributions to the Plan for the years ended March 31, 2019 and 2018 were \$132,137 and \$99,814, respectively.

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note Q – Related party transactions:

As of March 31, 2019 and 2018, the School owed Outward Bound USA (National OBS) \$69,381 and \$105,403, 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):

	2019	2018
Charter expense	\$ 34,241	\$ 93,844

Outward Bound Services Group (OBSG) is an Organization that is 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, 2019 and 2018, the School invoiced OBSG \$47,782 and \$65,076, respectively, for rent, office supplies and payroll reimbursements. As of March 31, 2019 and 2018, OBSG owed the School \$210,306 and \$58,576, respectively. During the years ended March 31, 2019 and 2018, the School incurred marketing fees of \$329,554 and \$338,865, respectively, to OBSG. As of March 31, 2019 and 2018, the School owed OBSG \$196,290 and \$90,683, 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, 2019 and 2018 was \$245,391 and \$149,543, respectively, which represented 18% and 5% of total contributions received during each year.

Note R – Concentrations of credit risk:

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, 2019 and 2018, the School's uninsured cash balance totaled \$2,199,649 and \$3,471,472, respectively.

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note S – Intentions to give:

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. The School has received intentions to give from 38 individuals, with a total approximate intention to give of \$4,465,000 for the year ended March 31, 2019. The School has received intentions to give from 34 individuals, with a total approximate intention to give of \$3,465,000 for the year ended March 31, 2018. For the years ended March 31, 2019 and 2018, there are intentions to give included from the 38 and 34 individuals, respectively, for which the amount cannot be determined at this point of time.

Note T – Commitments:

The School has an employee lease agreement with Outward Bound Services Group (OBSG) in which the School leases certain employees and business services related to these employees to OBSG. The School is responsible for supplying and supervising the personnel, and payment of all payroll, payroll taxes and insurance customarily performed by an employer for its employees. Applicable payroll reimbursements to the School from OBSG are included in the total income invoiced to OBSG amounts disclosed in Note Q in these financial statements.

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note U – Fair value of financial instruments:

As required by FASB ASC 820-10, as of March 31, 2019, 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	\$ -	\$ -	\$ 977,380	\$ 977,380
Long-term investments:				
Money market funds	2,726,118	-	-	2,726,118
Stocks	2,814	-	-	2,814
Fixed income mutual funds	-	5,058,661	-	5,058,661
Agency endowments with Community Foundations	-	-	896,082	896,082
Equity mutual funds	11,143,192	-	-	11,143,192
Cash surrender value of life insurance	-	8,949	-	8,949
Total assets measured at fair value	\$ 13,872,124	\$ 5,067,610	\$ 1,873,462	\$20,813,196

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

Beginning balance, April 1, 2018	\$ 1,518,816
Additional contributions	53,600
Less increase (decrease) in discount on pledges receivable	(66,089)
Less payments	661,125
Ending balance, March 31, 2019	\$ 977,380

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note U – Fair value of financial instruments – continued:

The reconciliation of significant unobservable inputs (level 3) for agency endowments with Community Foundations is as follows:

Beginning balance, April 1, 2018	\$ 1,068,534
Interest and dividends	22,775
Unrealized gains (losses)	6,611
Less distributions	201,838
<hr/>	
Ending balance, March 31, 2019	\$ 896,082

As required by FASB ASC 820-10, as of March 31, 2018, 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			Total
	Level 1	Level 2	Level 3	
Assets:				
Pledges receivable	\$ -	\$ -	\$ 1,518,816	\$ 1,518,816
Long-term investments:				
Money market funds	277,727	-	-	277,727
Fixed income mutual funds	-	4,993,015	-	4,993,015
Agency endowments with Community Foundations	-	-	1,068,534	1,068,534
Equity mutual funds	11,384,378	-	-	11,384,378
Cash surrender value of life insurance	-	13,581	-	13,581
<hr/>				
Total assets measured at fair value	\$ 11,662,105	\$ 5,006,596	\$ 2,587,350	\$19,256,051

North Carolina Outward Bound School

Notes to Financial Statements – continued

March 31, 2019 and 2018

Note U – Fair value of financial instruments – continued:

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

Beginning balance, April 1, 2017	\$ 1,576,484
Additional contributions	763,640
Less increase (decrease) in discount on pledges receivable	(52,356)
Less payments	873,664
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Ending balance, March 31, 2018	\$ 1,518,816

The reconciliation of significant unobservable inputs (level 3) for agency endowments with Community Foundations is as follows:

Beginning balance, April 1, 2017	\$ 1,177,262
Interest and dividends	22,738
Unrealized gains (losses)	69,604
Less distributions	201,070
<hr/>	
Ending balance, March 31, 2018	\$ 1,068,534

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 and other observable inputs for investments in Community Foundations. 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 – Subsequent events:

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, 2019. The School has evaluated events that have occurred after March 31, 2019 and prior to October 4, 2019 (the date of issuance) for potential recognition or disclosure in the financial statements.