

UNION ACADEMY

Audited Financial Statements

June 30, 2022

UNION ACADEMY
Monroe, North Carolina

Audited
Financial Statements
For
The Year Ended
June 30, 2022

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Union Academy
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As of June 30, 2022

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FINANCIAL SECTION



POTTER & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
Union Academy
Monroe, North Carolina

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of **Union Academy** as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise **Union Academy's** basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of **Union Academy** as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the Union Academy Foundation, a discretely presented component unit, as of June 30, 2022. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Union Academy Foundation, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **Union Academy**, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of Union Academy Foundation were not audited in accordance with *Governmental Auditing Standards*.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **Union Academy's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercised professional judgment and maintained professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Union Academy's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Union Academy's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8-15 be presented to supplement the basic financial statements. Such information is the responsibility of management; although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Union Academy's** basic financial statements. The budgetary schedule, as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the

State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the budgetary schedule, and the Schedule of Expenditures of Federal and State Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022 on our consideration of **Union Academy'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 **Union Academy's** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Union Academy's** internal control over financial reporting and compliance.

Pott & Company

October 31, 2022
Monroe, North Carolina

Union Academy
Management's Discussion and Analysis
June 30, 2022

As management of Union Academy (the "School"), we provide these financial statements and this narrative overview and analysis of the School's financial position at June 30, 2022 and its operations for the year then ended. We encourage readers to review the discussion presented here in conjunction with additional information included in the School's financial statements and notes which follow this section.

Financial Highlights

- COVID had a minimal impact on the learning environment of our students for the FY 2021-2022 school year; however, the long-term effects of its interruption of the education setting are becoming evident. In order help to reduce those negative repercussions, we received a total of \$834,578 in Covid-19 Education Stabilization Funds. These funds were state and federal government grants which primarily targeted learning loss.
- The assets of the School exceeded its liabilities and deferred inflows at the close of the fiscal year by \$13,556,904 (*net position*).
- The government's total net position increased by \$1,943,058, primarily due to an increase in the governmental-type activities' net position.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$12,109,082, an increase of \$2,251,418 in comparison with the prior year.
- Enrollment increased slightly compared to recent years. Student enrollment totaled 1,986, 1,959, and 1,953 in years 2022, 2021 and 2020, respectively.
- The School expended an average of \$8,933 of State, local and federal current expense dollars per pupil for the fiscal year 2021-2022 compared to \$7,850 in the previous year.

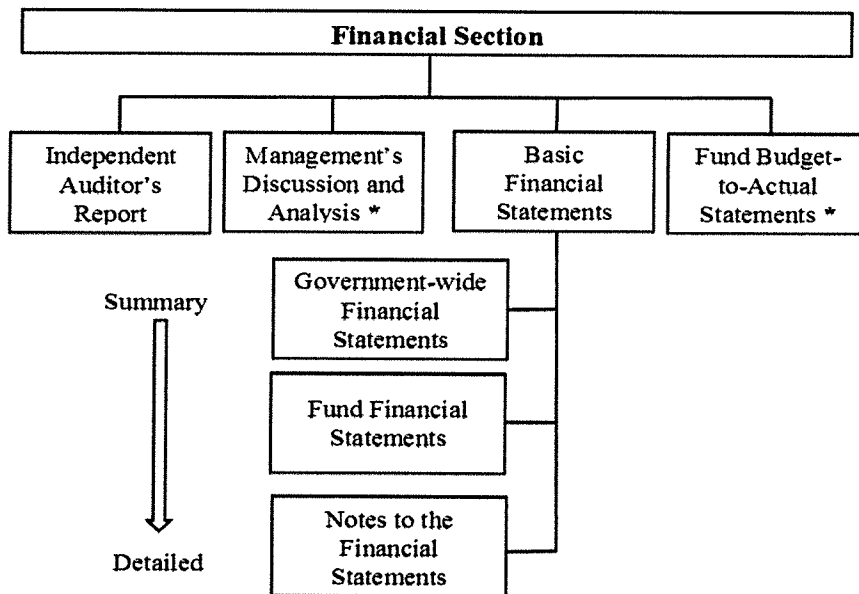
Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components; the government-wide financial statements, the fund financial statements, and the notes to the financial statements. The basic financial statements present two different views of the School through the use of government-wide financial statements and the fund financial statements. In addition to the basic financial statements, the annual financial report contains the independent auditor's report, certain required supplementary information and other required schedules that provide additional information to enhance the reader's understanding of the financial position and activities of the School.

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

Components of Annual Financial Report

Figure 1



* Required Supplementary Information

Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the School's financial status.

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the School. These statements provide more detail than the government-wide statements.

The next section of the basic financial statements includes the **notes**. The notes to the basic financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to budgetary information for the School is found in this section of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the School's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status as a whole.

The government-wide statements report the School's net position and how it has changed. Net position is the difference between the School's total assets plus deferred outflows of resources minus

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June 30, 2022

the total of liabilities plus deferred inflows of resources. Measuring net position is one way to gauge the School's financial condition.

The governmental activities include the School's basic functions such as instructional services and support services. State, county and federal funds provide virtually all of the funding for these functions.

The condensed government-wide financial statements are provided in Figures 2 and 3 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the North Carolina General Statutes or the School's budget ordinance. All of the funds of the School fall into the category of governmental funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the School's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the School's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The School adopts an annual budget, although it is not required to do so by the General Statutes. Because the budget is not legally required by the statutes, the budgetary comparison statements are not included in the basic financial statements but are part of the supplemental statements and schedule that follow the notes. The budget is a legally adopted document that incorporates input from the faculty, management, and the Board of Directors of the School in determining what activities will be pursued and what services will be provided by the School during the year. It also authorizes the School to obtain funds from identified sources to finance these current period activities. The budgetary statement demonstrates how well the School has complied with the budget ordinance and whether the School has succeeded in providing the services as planned when the budget was adopted.

Notes to the Basic Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements begin on page 23 of this report.

Government-Wide Financial Analysis

The financial analysis reveals that a June 30, 2022 cash and cash equivalents and other current assets, accounted for 38.2% of total government-wide assets representing a \$2,028,820 increase over prior year. In addition, prepaid items and the interest rate swap accounted for 54.4% and 2.4% of total government-wide assets, respectively. These relationships were little changed from the prior year. Capital assets, net of accumulated depreciation, accounted for 4.1% of total assets, similar to last

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year's 4.0%. Rounding out the assets is right to use leased assets, net of amortization, receivable from the custodial fund, due from other governments, and restricted investment, which when combined represent the remaining 0.9% of total government-wide assets. Long-term liabilities increased insignificantly now representing 95.1% of total liabilities this year versus 94.4% in the prior year. In addition, other liabilities representing 4.9% of total liabilities decreased insignificantly from 5.6% the prior year.

As previously noted, net position may, over time, serve as one useful indicator of a school's financial condition. The assets of the School exceeded liabilities and deferred inflows of resources by \$13,556,904 as of June 30, 2022. As of June 30, 2021, the net position of the School stood at \$11,613,846. The School's net position increased by \$1,943,058 for the fiscal year ended June 30, 2022, compared to an increase of \$1,760,660 in 2021. The School's investment in capital assets (e.g. furniture and school-related equipment) represents 10.8% of total net position. The School uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. The remaining net asset amount, \$12,089,456, is unrestricted. In 2021, the amount of net investment in capital assets was \$1,321,314 with unrestricted net position standing at \$10,292,532.

A condensed statement of net position which summarizes the assets, liabilities, deferred inflows of resources and net position at June 30, 2022 and 2021 is as follows:

Condensed Statement of Net Position

Figure 2

	<u>Governmental Activities</u>	
	<u>2022</u>	<u>2021</u>
Assets		
Current and other assets	\$ 31,992,195	\$ 31,485,252
Non-current:		
Capital assets, net	1,388,581	1,321,314
Right to use lease, net	115,074	-
Restricted investments	9,300	9,300
Total assets	<u>33,505,150</u>	<u>32,815,866</u>
Liabilities		
Long-term liabilities	18,192,353	18,658,412
Other liabilities	947,191	1,113,161
Total liabilities	<u>19,139,544</u>	<u>19,771,573</u>
Deferred inflows of resources	<u>808,702</u>	<u>1,430,447</u>
Net position:		
Net invested capital assets	1,467,448	1,321,314
Unrestricted	12,089,456	10,292,532
Total net position	<u>\$ 13,556,904</u>	<u>\$ 11,613,846</u>

Several aspects of the School's financial operations contributed to the improvement in the total unrestricted governmental net position:

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- The School adopted an annual budget. The School's performance was measured using these budgets on a monthly basis, allowing changes to be made in spending as needed to remain within the confines of the budget.
- The School applied for and was awarded several federal grants to assist with the expenses of meeting the education needs of the student population.
- Long-term liabilities decreased by \$466,059, mainly due to principal payments made during the year and the increase for the new lease obligation. Other liabilities decreased slightly by \$165,970 primarily due to the change in accounts payable and accrued salaries and wages payable. Accounts payable decreased due to the timing of invoices received and paid at the end of the fiscal year, while accrued salaries and wages payable decreased due to a change in procedures with retirement funding. In prior years, the retirement contribution was calculated and contributed on an annual basis whereas in fiscal year 2022, the contribution was calculated and contributed on a monthly basis.

Revenues, expenses, transfers and the change in net position is summarized in the following condensed statement of activities for the years ended June 30, 2022 and 2021:

Condensed Statement of Activities
Figure 3

	Governmental Activities	
	2022	2021
Revenues:		
Program revenues:		
Charges for services	\$ 492,424	\$ 51,485
Operating grants and contributions	1,223,363	664,735
General revenues:		
County and State funds	17,781,029	16,750,785
Other	879,501	181,115
Total revenues	20,376,317	17,648,120
Expenses:		
Instructional services	11,483,612	10,185,623
System-wide support services	6,375,351	5,068,461
Debt service	574,296	633,376
Total expenses	18,433,259	15,887,460
Change in net position	1,943,058	1,760,660
Net position, beginning	11,613,846	9,853,186
Net position, ending	\$ 13,556,904	\$ 11,613,846

Governmental activities: Governmental activities increased the School's net position by \$1,943,058, when compared to the prior year. This change is attributed to the following:

- County and State funds of \$17,781,029 increased by \$1,030,244 and make up 87.2% of total revenues. The majority of that increase was due to an increase in state funding from \$5,514 to \$5,722 paired with a slight increase in funds from Union County Public Schools from \$2,496

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Management's Discussion and Analysis
June 30, 2022*

to \$2,528 per pupil. The School also received \$82,103 in State funds for a School Safety Grant. This grant was used to purchase security cameras for classrooms and safety door sleeves for use should a lockdown situation occur.

- Other revenues also increased by \$698,386 back to pre-pandemic levels due to resuming normal activities at the School.
- Operating grants and contributions increased by \$556,628 in the current year. The majority of that increase was due to the receipt of Covid-19 Education Stabilization Funds, consisting of Elementary and Secondary School Emergency Relief (ESSER II and III) funds, Coronavirus Aid, Relief, and Economic Security (CARES) Act for the Governor's Emergency Education Relief Fund (GEER) funds, and American Rescue Plan (ARP) funds. The School received a total of \$834,578 from these funds this fiscal year and \$343,539 last fiscal year, an increase of \$491,039.
- During fiscal year 2022, we resumed on-campus activities, off-campus field trips and overnight field trip opportunities for students that were placed on hold in the prior year due to the coronavirus pandemic; therefore, charges for services increased by \$440,939.
- Instructional services and related expenses of \$11,483,612 and system-wide support services expense of \$6,375,351 account for 62.3% and 34.6% of total expenses respectively. Instructional services increased \$1,297,989. System-wide support services increased \$1,306,890. These increases are primarily due to additional classroom teachers and support positions being hired. In addition, retention bonuses were given using COVID funds.
- The remaining 3.1% of total expenses is the interest expense of \$574,296. This interest expense is related to debt service and decreased \$59,080 compared to the prior year.

Financial Analysis of the School's Funds

As previously noted, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the School's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the School. At the end of the current fiscal year, the assets in the General Fund consisted primarily of cash and cash equivalents which equaled 98.8% of total fund assets. Accrued salaries and wages payable accounted for 89.6% of General Fund liabilities. The unassigned fund balance of the General Fund was \$10,408,414, or 86% of total fund balance, while total fund balance reached \$12,109,082. The primary source, 78.0% of General Fund revenue was \$4,889,858 in reimbursements by various counties for their students attending the School. Other school and club activities amounted to \$1,241,143, or 19.8% of General Fund revenues. 87% of total General Fund expenditures are composed of salaries and benefits included in both Instructional and System-wide services. Instructional support services of \$1,982,795 and System-wide support services of \$1,674,725 represented 47.2% and 39.9% respectively of General Fund expenditures. Additional capital outlay of \$295,182, leased assets of \$180,170 and debt service of \$66,902 accounted for 7.0%, 4.3% 1.6% and respectively, of General Fund expenditures.

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At June 30, 2022, the government funds of the School reported a combined fund balance of \$12,109,082, a 22.8% increase over last year.

Capital Asset and Debt Administration

Capital assets. The School's investment in capital assets for its governmental activities as of June 30, 2022, totals \$1,388,581 (net of accumulated depreciation). These assets include storage units, furniture and fixtures, food service equipment, computer equipment, leasehold improvements, other equipment, and vehicles.

Capital assets experienced a net increase of \$67,267. This is primarily due to the current year depreciation expense of \$465,719, disposal of an asset with book value of \$9,239 offset by additions of only \$542,225. Leasehold improvements make up 58.7% or \$318,210 of the additions for FY22. The largest portion of this amount, \$206,510, was for construction of a new track while the remainder was used to replace doors and HVAC units. Instructional computer equipment such as chromebooks, laptops and smartboards represented 26.8% or \$145,195 of capital expenditures as the School continues to increase the use of technology in the K-12 classrooms. A 12 passenger van was purchased this year in order to provide transportation for smaller team sports and professional development trips. Its cost was \$45,793 which represents 8.4% of capital expenditures. New lockers were purchased to accommodate the high school and new speakers were purchased for the football stadium under the furniture and fixtures category. These expenditures represent 4.2% and totaled \$22,727. The remaining addition, 1.9% or \$10,300, in the equipment category consists of a zero turn mower to be used by the maintenance department for the day to day upkeep of the facilities and grounds.

The following schedule summarizes the School's capital assets as June 30, 2022 and 2021:

Capital Assets, Net of Depreciation
Figure 4

	Governmental Activities	
	2022	2021
Storage units	\$ 12,963	\$ 16,027
Furniture and fixtures	193,272	254,191
Food service equipment	3,482	4,501
Computer equipment	335,121	428,691
Leasehold improvements	742,784	529,426
Equipment	48,919	61,975
Vehicles	52,040	26,503
Capital assets, net	\$ 1,388,581	\$ 1,321,314

Additional information on the School's capital assets can be found in note II.A.4. of the basic financial statements.

Long-term Debt. At June 30, 2022, the School had total debt outstanding of \$18,132,134. The debt consists of revenue bonds.

The School's outstanding debt at June 30, 2022 and 2021 is summarized in the following schedule:

*Union Academy
Management's Discussion and Analysis
June 30, 2022*

**Long-term Obligations
Figure 5**

	Governmental Activities	
	2022	2021
Revenue bonds	\$ 18,132,134	\$ 18,649,112

The School issued a \$20,000,000 Educational Facilities Revenue Bond Series 2017 for the purpose of refunding the outstanding principal amount of the Series 2010 Revenue Bond and for prepayment of an educational facilities expansion that included the lower school building and competition gym. The School's total debt decreased by \$516,978 during the past fiscal year due to principal payments.

Economic Factors

The following key economic indicators reflect the growth and prosperity of the School:

- In spite of the pandemic, demand for enrollment in the School remains strong. The School increased enrollment to 1,986 and continues to have a solid waiting list of applicants. The School had over 1,700 applicants for the lottery. A waitlist is currently maintained that includes 1,148 students in grades K-12.
- The School receives students from five separate LEAs, which highlights the market demand for its services not only locally but from the surrounding areas as well.

Requests for Information

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Board Chair, Union Academy, 675 North Martin Luther King Jr. Blvd., Monroe, NC 28110, telephone (704) 238-8883. Additional information is available at the School's website, www.unionacademy.org.

FINANCIAL STATEMENTS

Union Academy
Statement of Net Position
June 30, 2022

Exhibit 1

	Primary Government		Component Unit
	Governmental Activities	Total	Union Academy Foundation
ASSETS			
Cash and cash equivalents	\$ 12,813,497	\$ 12,813,497	\$ 99,269
Investments	-	-	321,369
Due from other governments	78,995	78,995	-
Accounts receivable	-	-	30,166
Pledges receivable, net	-	-	169,115
Receivable from custodial funds	80,000	80,000	-
Prepaid items	18,211,001	18,211,001	8,448
Inventory	-	-	66,365
Capital assets			
Land	-	-	1,116,143
Construction in progress	-	-	1,479,447
Other capital assets, net of depreciation	1,388,581	1,388,581	22,015,503
Right to use leased assets, net of amortization	115,074	115,074	-
Other assets:			
Interest rate swap	808,702	808,702	-
Restricted investments	9,300	9,300	-
Beneficial interest in assets held by others	-	-	105,075
Total Assets	<u>33,505,150</u>	<u>33,505,150</u>	<u>25,410,900</u>
LIABILITIES			
Accounts payable	36,004	36,004	147,778
Accrued salaries and wages payable	773,540	773,540	-
Accrued interest payable	18,649	18,649	-
Current portion of lease obligations	65,132	65,132	-
Due to other governments	53,866	53,866	-
Deferred revenue	-	-	11,500
Long-term liabilities:			
457(f) deferred compensation payable	9,300	9,300	-
Unearned rent, current portion	-	-	891,965
Unearned rent, long-term portion	-	-	17,319,032
Lease obligations - long-term	50,919	50,919	-
Due within one year	533,239	533,239	-
Due in more than one year	17,598,895	17,598,895	-
Total Liabilities	<u>19,139,544</u>	<u>19,139,544</u>	<u>18,370,275</u>
DEFERRED INFLOWS OF RESOURCES	<u>808,702</u>	<u>808,702</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	1,467,448	1,467,448	-
Restricted	-	-	107,300
Unrestricted	12,089,456	12,089,456	6,933,325
Total Net Position	<u>\$ 13,556,904</u>	<u>\$ 13,556,904</u>	<u>\$ 7,040,625</u>

Exhibit 2

The accompanying notes are an integral part of the basic financial statements.

Union Academy
Balance Sheet - Governmental Funds
June 30, 2022

Exhibit 3

	Major Funds		Non-Major Funds	Totals
	General	State Public School	Federal Grants	Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 12,813,497	\$ -	\$ -	\$ 12,813,497
Due from other governments	78,995	-	-	78,995
Receivable from custodial funds	80,000	-	-	80,000
Total Assets	<u>\$ 12,972,492</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,972,492</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 36,004	\$ -	\$ -	\$ 36,004
Accrued salaries and taxes payable	773,540	-	-	773,540
Due to other governments	53,866	-	-	53,866
Total Liabilities	<u>863,410</u>	<u>-</u>	<u>-</u>	<u>863,410</u>
Fund Balances:				
Committed:				
Operating reserve	1,465,145	-	-	1,465,145
Assigned:				
Clubs and activities	235,523	-	-	235,523
Unassigned	10,408,414	-	-	10,408,414
Total Fund Balances	<u>12,109,082</u>	<u>-</u>	<u>-</u>	<u>12,109,082</u>
Total Liabilities and Fund Balances	<u>\$ 12,972,492</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets	5,318,433
Accumulated depreciation	(3,929,852)

Right to use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Right to use assets	180,170
Accumulated amortization	(65,096)

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Prepaid Foundation lease	18,211,001
Investment restricted for deferred compensation plan	9,300

Some liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds

Revenue Bonds	(18,132,134)
Lease obligations	(116,051)
Deferred compensation plan payable	(9,300)
Accrued interest for note payable not reported in the fund statements	(18,649)

Net position of governmental activities	<u>\$ 13,556,904</u>
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Union Academy
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2022

Exhibit 4

	Major Funds		Non-Major Funds	Total Governmental Funds
	General	State Public School	Federal Grants	
Revenues				
State of North Carolina	\$ -	\$ 12,891,171	\$ -	\$ 12,891,171
U. S. Government	-	339,547	883,816	1,223,363
Union County and other counties	4,889,858	-	-	4,889,858
Contributions and other donations	140,021	-	-	140,021
Other school and club activities	1,241,143	-	-	1,241,143
Total Revenues	6,271,022	13,230,718	883,816	20,385,556
Expenditures				
Current:				
Instructional services	1,982,795	8,368,682	718,728	11,070,205
System-wide support services	1,674,725	3,626,604	65,624	5,366,953
Capital outlay	295,182	147,579	99,464	542,225
Leased assets	180,170	-	-	180,170
Debt service				
Principal	64,119	516,978	-	581,097
Interest and other charges	2,783	570,875	-	573,658
Total Expenditures	4,199,774	13,230,718	883,816	18,314,308
Excess (deficiency) of revenues over expenditures	2,071,248	-	-	2,071,248
Other Financing Sources (Uses)				
Lease liabilities issued	180,170	-	-	180,170
Total other financing sources	180,170	-	-	180,170
Net change in fund balance	2,251,418	-	-	2,251,418
Fund Balances:				
Beginning of Period	9,857,664	-	-	9,857,664
End of Period	\$ 12,109,082	\$ -	\$ -	\$ 12,109,082

Union Academy **Exhibit 5**
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2022

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

Net changes in fund balances - total governmental funds	\$ 2,251,418
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The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities reported in the government-wide statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital outlay expenditures recorded in the fund statements but capitalized as assets on the statement of activities.	\$ 542,225	
Depreciation expense that is recorded on the statement of activities but not in the fund statements.	(465,719)	
		76,506

Right to use leased asset capital outlay expenditures which were capitalized	\$ 180,170	
Amortization expense for intangible assets	(65,096)	
		115,074

Cost of capital assets disposed not recorded in fund statements	(9,239)
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The fund financial statements record interest expenditures on the current financial resource measurement focus whereas the government-wide financial statements recognize interest expense on the accrual basis. The reconciling amount was the change in accrued interest from the prior year.

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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums, discounts and prepaid insurance when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Debt issued or incurred:

Principal payments on debt	516,978	
New long-term debt issued - leases	(180,170)	
Principal payments on leases	64,119	
		400,927

Expenses reported on the statement of activities that do not require the use of current resources are not recorded as expenditures in the governmental funds. The detail of this difference is as follows:

Amortization of prepaid lease	(891,967)
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Total changes in net position of governmental activities	<u>\$ 1,943,058</u>
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Union Academy
Statement of Fiduciary Net Position
Custodial Fund
June 30, 2022

Exhibit 6

ASSETS

Cash and cash equivalents

\$ 34,979

LIABILITIES

Due to other fund

\$ 80,000

Unearned revenue

8,825

Total liabilities

88,825

NET POSITION

Unrestricted

(53,846)

Total liabilities and net position

\$ 34,979

Union Academy
Statement of Changes in Fiduciary Net Position
Custodial Fund
For the Year Ended June 30, 2022

Exhibit 7

ADDITIONS

Pre-K tuition	\$ 365,570
Afterschool tuition	21,380
Pre-care tuition	4,000
Application fees	11,375
Other	<u>3,160</u>

Total additions	<u>405,485</u>
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DEDUCTIONS

Advertising and promotion	3,438
Bank service charges	13,312
Professional fees	700
Materials and supplies	3,681
Employee benefits	36,201
Miscellaneous	2,878
Payroll taxes	19,551
Salaries and wages	<u>268,010</u>

Total deductions	<u>347,771</u>
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Change in net position	57,714
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Net position, beginning of year	<u>(111,560)</u>
Net position, end of year	<u><u>\$ (53,846)</u></u>

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies

The accounting policies of **Union Academy** (the School) conform to generally accepted accounting principles (GAAP) as applicable to governments. Charter schools are established by non-profit entities, such as Union Academy. Because of the authority of the State Board of Education (the “SBE”) to terminate, not renew or seek applicants to assume a charter on grounds set out in the North Carolina General Statutes at G.S. 115C-218.95 with all net assets purchased with public funds reverting to a local education agency (G.S. 115C-218.100), the charter schools in North Carolina follow the governmental reporting model as used by local education agencies. The following is a summary of the more significant accounting policies:

A. Reporting Entity

Union Academy is a public charter school located in Monroe, North Carolina. The School is governed by a local non-profit corporation and serves 2,040 students. The School operates under an approved charter received from the SBE and applied for under the provisions of General Statute (G.S.) 115C-218.1. G.S. 115C-218.6(b)(1) states that a charter school shall be subject to the audit requirements adopted by the SBE, which includes the audit requirements established by G.S. 115C-447 of the School Budget and Fiscal Control Act (SBFCA), and requires financial statements to be prepared in accordance with GAAP. The School is located at 675 North M.L. King Jr. Blvd. in Monroe, NC.

The current charter is effective until June 30, 2025 and may renew for subsequent periods of ten (10) years unless one of the conditions in G.S. 115C-218.6(b) applied in which case the SBE may renew the charter for a shorter period or not renew the charter. Management believes that the charter will be renewed in the ordinary course of business.

The School has been recognized by the Internal Revenue Service as exempt from Federal income taxation under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3).

As required by generally accepted accounting principles, these financial statements present the School and its component unit, a legally separate entity. The discretely presented component unit described below is reported in a separate column in the School’s financial statements in order to emphasize that it is legally separate from the School.

Union Academy Foundation (the “Foundation”) is a legally separate, nonprofit corporation, served by a self-appointing board of directors. The Foundation was established to provide support, both financial and otherwise, to the School and other non-profit educational ventures, which seek to increase learning opportunities for all students. The School, under an agreement with the Foundation, leases a significant portion of the Foundation’s assets. These Foundation assets collateralize the School’s revenue bond payable. Based on the significant resources provided by the Foundation to the School, the Foundation is reflected as a component unit of the School. The Foundation’s financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements for Not-for-Profit Organizations.” The most recent separately issued accrual basis financial statements for the Foundation for the year ended June 30, 2022, can be obtained from the entity’s administrative office at Union Academy Foundation, 675 North M.L. King Jr. Blvd., Monroe, NC 28110.

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies - Continued

The School reports a custodial fund in Exhibits 6 and 7 of the Basic Financial Statements. This custodial fund belongs to Union Academy Private PreKindergarten (UA Pre-K). UA Pre-K is organized for educational purposes and to provide support, both financial and otherwise, to Union Academy and to other non-profit educational ventures that qualify as exempt organizations under Sections 501(c)(3) and 170(c)(2) of the Internal Revenue Code of 1986 (herein the "Code") (or the corresponding provisions of any future United States Internal Revenue Code), especially those ventures which seek to increase learning opportunities for all students. The UA Pre-K was incorporated in February 2017 and began operations in July 2017. The mission of the UA Pre-K is to educate the whole child, provide challenging, high quality instruction, strong character development in all of its students and collaborative family involvement. The vision is to be a pathway by which children mature and grow into confident young students who are highly prepared and motivated to make positive contributions to their school community. The School is the sole external financial contributor and ensures that the necessary resources and funds are available for UA Pre-K daily operations. UA Pre-K enrollment does not secure or guarantee enrollment at the School. The UA Pre-K is located at 3828 Old Charlotte Hwy, Monroe, NC 28110.

B. Basis of Presentation

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

Government-wide Statements: The statement of net position and the statement of activities display information about the School and the Foundation. These statements include the financial activities of the overall government activities and the component unit, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements would distinguish between the governmental and business-type activities of the School, in the event such activities existed. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The School had no significant business-type activities.

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

Fund Financial Statements: The fund financial statements provide information about the School's funds. A separate statement for major governmental funds is presented. All remaining governmental funds are aggregated and reported as non-major funds.

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies - Continued

The School reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

State Public School Fund. The State Public School Fund includes appropriations from the Department of Public Instruction for current operating needs of the School and is reported as a special revenue fund.

The School reports the following nonmajor governmental funds:

Federal Grants Fund. The Federal Grants Fund includes grants from the U.S. Department of Education for various special programs.

The School reports the following fiduciary fund:

Custodial Fund. The Custodial Fund is used to account for the funds of a private not-for-profit organization operating a prekindergarten program.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the School and Foundation give (or receive) value without directly receiving (or giving) equal value in exchange, include grants, contributions, and donations. Revenue from grants, contributions, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. These could include federal, State, and county grants, and some charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under leases are reported as other financing sources.

Under the terms of grant agreements, the School funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unassigned net position available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

D. Budgetary Data

The School adopts an annual budget that reflects all revenues and expenditures for the School. The budget is prepared using the modified accrual basis of accounting.

*Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022*

I. Summary of Significant Accounting Policies - Continued

The governing board has voluntarily established the policy, as a sound business practice, that expenditures may not exceed appropriations based on the adopted budget and subsequent amendments. During the year, several amendments to the original budget were necessary. The budget presented in the supplementary information represents the budget of the School at June 30, 2022. All appropriations lapse at year end.

In accordance with the Governmental Accounting Standards Board, governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the general fund and each major special revenue fund are required to present a budgetary comparison schedule as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget. This is presented on page 41 and explains the differences between budgetary sources and uses of funds and GAAP revenues and expenditures for the total governmental funds.

E. Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Fund Equity

1. Deposits

All deposits of the School and the Foundation are made in a local bank, whose accounts are FDIC insured. The School has established an interest-earning checking account. The School's deposits are essentially demand deposits and are considered cash and cash equivalents. The Foundation considers all highly liquid unrestricted investments with maturities of three months or less to be cash equivalents.

2. Fair Value Measurements

The Foundation measures the fair value of its financial instruments in accordance with accounting guidance that requires an entity to base fair value on exit price and maximize the use of observable inputs and minimize the use of unobservable inputs to determine the exit price. Accounting guidance defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Foundation categorizes financial instruments, based on the priority of inputs to the valuation technique, into three-level hierarchy, as described below:

Level 1 – Observable inputs that are based upon quoted market prices for identical assets or liabilities within active markets.

Level 2 – Observable inputs other than Level 1 that are based upon quoted market prices for identical assets or liabilities within inactive markets, or inputs other than quoted market prices that are observable through market data for substantially the full term of the asset or liability.

Level 3 – Inputs that are unobservable for the particular asset or liability due to little or no market activity and are significant to the fair value of the asset or liability. These inputs reflect assumptions that market participants would use when valuing the particular asset or liability.

*Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022*

I. Summary of Significant Accounting Policies - Continued

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The School's primary prepaid item relates to a lease with the Foundation and uses the consumption method of accounting to expense rent based on the operating lease agreement. Accordingly, the Foundation has unearned rental revenue relating to the School's prepayment of the lease. Please see Note II.B.4.a. for further information about the lease.

4. Pledges Receivable (Component Unit)

Unconditional promises to give are recognized by the Foundation in the period when the promise is received. Contributions that are restricted by the donor are reported as increases in net position without donor restrictions if the restrictions expire in the fiscal year in which the contributions or grants are received. All other donor-restricted contributions are reported as increases in net position with donor restrictions. When a restriction expires, net position with donor restrictions are reclassified to net position without donor restrictions. Pledges receivable are stated net of any uncollectable amounts and discounts to present value. The Foundation uses the reserve method for accounting for uncollectible promises to give, based on historical data.

5. Capital Assets

The School's and Foundation's capital assets are recorded at original cost and depreciated over the useful lives of the assets using the straight-line method of depreciation. Donated assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation or forfeiture. Donated capital assets received after July 1, 2015 are recorded at acquisition value. The total of these estimates is not considered large enough that any errors would be material when capital assets are considered as a whole.

It is the policy of the School to capitalize all capital assets costing more than \$5,000 with an estimated useful life of two or more years. In addition, other items that are purchased and used in large quantities, such as student desks and office furniture, are capitalized and reported as general capital assets. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The School's capital assets are depreciated over the following estimated useful lives:

	<u>Years</u>
Storage Units	8
Leasehold Improvements	10
Furniture and Fixtures	5-10
Food Service Equipment	7
Equipment	3-7
Vehicles	3-5
Computer Equipment	3-5

The Foundation's capital assets are depreciated over the following estimated useful lives:

	<u>Years</u>
Land improvements	15-40
Buildings and building improvements	10-40
Furniture and equipment	3-10

*Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022*

I. Summary of Significant Accounting Policies - Continued

6. Long Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

7. Deferred outflows or inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The School has one item that meets the criterion for this category, which is the interest rate swap. The interest rate swap agreement is stated at fair value. The fair value of the interest rate swap agreement is the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

8. Compensated Absences

The School does not have any liability for compensated absences which would be reported in the government-wide financial statements. The sick leave policy of the School provides for an accumulation of up to 10 earned sick leave days per year without carryover. Sick leave does not vest. Since the School has no obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

9. Net Position/Fund Balances

Net Position

Net position in the government-wide financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors or contributors, or laws or regulations of other governments, or imposed by law through State statute.

Fund Balance

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. As of June 30, 2022, the School had no nonspendable fund balance amounts.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law. As of June 30, 2022, the School had no restricted fund balance amounts.

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies - Continued

Committed Fund Balance – portion of fund balance that can only be used for a specific purpose imposed by the governing body (highest level of decision-making authority). Any changes or removal of the specific purpose requires a formal resolution enacted by the governing body that approved the original action.

Operating Reserve – reserve used in any fiscal year to cover an unexpected loss of revenue or an extraordinary expenditure. The reserve is to be funded at 8% of the total expenditures of the succeeding year's budget. Expenditures from this reserve must be approved by the Board.

Assigned Fund Balance – portion of fund balance that the School intends to use for specific purposes. The Chief Financial Officer assigns these amounts for a specific purpose which is governed by the School's Internal Fiscal Control Policy 5.1, established by the governing body of the School.

Clubs and Activities – revenue sources assigned for expenditures for the various clubs and organizations, athletic events, and various fund raising activities for which they were collected.

Unassigned Fund Balance – the portion of fund balance that has not been assigned to another fund or restricted, committed, or assigned to specific purposes within the general fund. The General Fund is the only fund that can report a positive unassigned fund balance.

The School has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Chief Financial Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local funds, School funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Chief Financial Officer has the authority to deviate from this policy if it is in the best interest of the School.

10. Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet (Exhibit 3) includes a reconciliation between governmental funds' total fund balance and governmental activities' net position reported in the government-wide statement of net position (Exhibit 1). The net adjustment totaled \$1,447,822.

11. Accounting for Uncertainty in Income Taxes

The School adopted ASC 740-10 as it related to uncertain tax positions effective for the year ended June 30, 2022 and has evaluated its tax positions taken for all open tax years. However, the School is not currently under audit nor has the School been contacted by these jurisdictions. Based on the evaluation of the School's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended June 30, 2022.

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies - Continued

12. Estimates

The School's management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect reported amounts of assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

F. Revenues, Expenditures, and Expenses

1. Funding

Union Academy is funded by the State Board of Education, receiving (i) an amount equal to the average per pupil allocation for the average daily membership (ADM) from the local school administrative unit allotments in which the school is located (Union County Board of Education) for each child attending the School except for the allocation for children with special needs and (ii) an additional amount for each child attending the School who is a child with special needs [G.S. 115C-218.105(a)].

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

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

For the fiscal year ended June 30, 2022, Union Academy received funding from the Boards of Education for Union County Schools, Charlotte-Mecklenburg County Schools, Anson County Schools, Cabarrus County Schools, and Stanly County Schools.

Furthermore, Union Academy has received donations of cash and/or equipment from private organizations and individuals. The cash has been used primarily for the purchase of new assets or various costs related to instructional materials used in the classrooms.

2. Reconciliation between government-wide and fund statements

The governmental fund statement of revenues, expenditures, and changes in fund balance is followed by reconciliation between the change in fund balance of the governmental funds and the change in net position of the governmental activities as reported on the government-wide statement of activities. The net difference between the governmental fund statement of revenues, expenditures and changes in fund balance (Exhibits 4 and 5) and the government-wide statements of activities (Exhibit 2) totaled (\$308,360).

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

II. Detail Notes on All Funds

A. Assets

1. Deposits

The School's deposits are maintained in a public fund account with Truist Bank (Truist). The public fund account provides deposit insurance coverage for cash balances that would not otherwise be insured by the Federal Deposit Insurance Corporation ("FDIC"). This program sweeps cash balances in excess of the \$250,000 FDIC insured amounts to various FDIC insured depository institutions.

At June 30, 2022, the School had deposits with a carrying amount of \$12,813,497. The bank balance was \$13,128,530. Of the bank balance, \$250,000 was insured by the FDIC and \$12,878,530 was insured by Truist's public fund insured deposit program.

At June 30, 2022, the Foundation had deposits with a bank with a carrying amount of \$99,269. The Foundation did not have any uninsured cash balances at June 30, 2022.

2. Investments

Investments for the Foundation as of June 30, 2022 are as follows:

	Value at Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2022
Beneficial interest in assets held by FFTC	\$ -	\$ 105,075	\$ -	\$ 105,075
Mutual Funds	-	-	303,842	303,842
Investment cash	17,527	-	-	17,527
Total Investments	\$ 17,527	\$ 105,075	\$ 303,842	\$ 426,444

The following is a description of the valuation methodologies used for investments for which fair value is presented.

Investment Cash

Value based on pricing information provided by quotation services or other sources, which are considered reliable but not guaranteed.

Beneficial interest in assets held by FFTC (Foundation for the Carolinas)

Value based on the values of the underlying investments held by the Active Long-Term Growth Pool maintained by FFTC. The underlying investments are made up of exchanged-traded funds with quoted market values, comprising of broad domestic and international large and small cap stocks in developed and emerging markets.

Mutual Funds

Value based on pricing information provided by quotation services or other sources, which are considered reliable but cannot be guaranteed.

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

II. Detail Notes on All Funds - Continued

3. Due From Other Governments

Due from other governments consists of the following:

Sales tax receivable	\$ <u>78,995</u>
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4. Capital Assets

The School's capital asset activity for the year ended June 30, 2022, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balances</u>
Governmental activities:					
Capital assets being depreciated:					
Storage Units	\$ 34,595	\$ -	\$ -	\$ -	\$ 34,595
Furniture and Fixtures	950,218	22,727	-	-	972,945
Food Service Equipment	20,496	-	-	-	20,496
Computer Equipment	2,330,042	145,195	402,667	-	2,072,570
Leasehold Improvements	1,299,428	318,210	-	-	1,617,638
Equipment	223,777	10,300	-	-	234,077
Vehicles	337,117	45,793	16,798	-	366,112
Total capital assets being depreciated	<u>5,195,673</u>	<u>542,225</u>	<u>419,465</u>	<u>-</u>	<u>5,318,433</u>
Less accumulated depreciation for:					
Storage Units	18,568	3,064	-	-	21,632
Furniture and Fixtures	696,027	83,646	-	-	779,673
Food Service Equipment	15,995	1,019	-	-	17,014
Computer Equipment	1,901,351	238,763	402,667	-	1,737,447
Leasehold Improvements	770,002	104,852	-	-	874,854
Equipment	161,802	23,356	-	-	185,158
Vehicles	310,614	11,019	7,559	-	314,074
Total accumulated depreciation	<u>3,874,359</u>	<u>\$ 465,719</u>	<u>\$ 410,226</u>	<u>\$ -</u>	<u>3,929,852</u>
Governmental activity capital assets, net	<u>\$1,321,314</u>				<u>\$ 1,388,581</u>

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 349,289
System-wide supporting services	<u>116,430</u>
	<u>\$ 465,719</u>

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

II. Detail Notes on All Funds - Continued

The Foundation's capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balances	Increases	Decreases	Transfers	Ending Balances
Capital assets not being depreciated:					
Land	\$ 1,116,143	\$ -	\$ -	\$ -	\$ 1,116,143
Construction in progress	6,031	1,473,416	-	-	1,479,447
Total capital assets not being depreciated	1,122,174	1,473,416	-	-	12,595,590
Capital assets being depreciated:					
Buildings	25,740,412	-	-	-	25,740,412
Building improvements	72,774	-	-	-	72,774
Land improvements	1,345,532	-	-	-	1,345,532
Furniture and equipment	235,293	-	-	-	235,293
Total capital assets being depreciated	27,394,011	\$ -	\$ -	\$ -	27,394,011
Less accumulated depreciation:					
Total accumulated depreciation	4,661,109	\$ 717,398	\$ -	\$ -	5,378,507
Total capital assets being depreciated, net	22,732,902				22,015,503
Foundation capital assets, net	\$ 23,855,076				\$ 24,611,093

5. Right to Use Leased Assets

The School has recorded right to use leased assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

	Beginning Balances	Increases	Decreases	Ending Balances
Right to use leased assets				
Leased equipment	\$ -	\$ 180,170	\$ -	\$ 180,170
Total right to use assets	-	180,170	-	180,170
Less accumulated amortization for:				
Leased equipment	-	65,096	-	65,096
Total accumulated amortization	-	\$ 65,096	\$ -	65,096
Right to use leased assets, net	\$ -			\$ 115,074

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

II. Detail Notes on All Funds - Continued

B. Liabilities

1. Retirement Plan

The 401(k) plan allows plan participants to make salary deferral contributions to the plan in an amount not in excess of the maximum allowed by the Internal Revenue Code. The School contributes 4% to 10% of the plan participant's annual compensation based on years of service and the voluntary contributions of each plan participant.

The participants may make voluntary contributions, pursuant to a salary reduction agreement, of a percentage of annual compensation not to exceed the limits set by the Internal Revenue Code. For the year ended June 30, 2022 the Board of Directors approved a discretionary match; therefore, the School contributed \$370,268, with participants contributing \$516,105.

At June 30, 2022, all eligible employees of the School were included in the Plan. The School made all required contributions.

2. Deferred Inflows of Resources

The balance in deferred inflows of resources at year-end is composed of the following:

<u>Description</u>	<u>Unearned Revenue</u>
Interest Rate Swap	\$ 808,702

3. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School maintains general liability and errors and omissions insurance coverage of \$1 million per occurrence with a commercial carrier. In addition, the School also maintains an umbrella policy in the amount of \$10 million per occurrence.

The School carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage during the year, and claims have not exceeded coverage during the past three fiscal years.

In accordance with G.S. 115C-442, the School's employees who have custody of the School's monies at any given time are performance bonded through a commercial fidelity bond. The Headmaster and Chief Financial Officer are bonded for \$1,000,000.

The School does not carry coverage for loss due to flood damage.

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

II. Detail Notes on All Funds - Continued

4. Long-term Obligations

a. Building Lease

The School leases educational facilities under a lease agreement with the Foundation. The lease expires in December 2034 and requires the School to pay maintenance, insurance and other expenses. The School prepaid the lease using long-term debt proceeds. Lease expense in the amount of \$891,967 was charged to the governmental function of system-wide support services for the year ended June 30, 2022. Accordingly, the Foundation recorded the prepaid rent as a long-term liability and will recognize rental income in the year which it is earned. The Foundation's rental income for the year ended June 30, 2022 was \$891,967.

On May 18, 2017, the above referenced lease agreement was amended to include additional rent of educational facilities and to extend the lease period through December 1, 2042. Rent expense for the additional educational facilities will be \$20,000,000 through the expiration of the lease. In conjunction with the lease amendment, the School entered into a financing agreement, as described in Note II.B.4.c, to prepay the rent as balances become due on the construction of the educational facilities. Amortization of rent expense for the facilities began upon receipt of the certificate of occupancy in July 2018.

As of June 30, 2022, the School's prepaid rent under the lease agreement and lease amendment was \$18,211,001. This amount is presented as prepaid rent on the statement of net position and the School will record rent expense based on the terms of the agreement. The prepaid rent received by the Foundation is recorded as a liability on the statement of net position and the Foundation will recognize revenue based on the terms of the agreement.

The prepaid lease will be expensed by the School and recognized as revenue to the Foundation, as follows:

June 30, 2023	\$ 891,967
June 30, 2024	891,967
June 30, 2025	891,967
June 30, 2026	891,967
June 30, 2027	891,967
July 1, 2027 – June 30, 2032	4,459,837
July 1, 2032 – June 30, 2037	4,459,837
July 1, 2037 – June 30, 2042	4,459,837
July 1, 2042 – December 1, 2042	371,655
	<u>\$ 18,211,001</u>

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

II. Detail Notes on All Funds - Continued

b. Lease Obligations

The School has entered into agreements to lease equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The right to use asset is discussed in more detail in footnote II.A.5.

The School has various leases for copiers and a postage machine through July 2025. The lease obligation calculations use the Board's incremental borrowing rate of 2%.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2022, were as follows:

Year ending June 30	Principal Payments	Interest Payments	Total
2023	\$ 65,132	\$ 1,769	\$ 66,901
2024	49,952	450	50,402
2025	892	11	903
2026	75	1	76
2027	-	-	-
	\$ 116,051	\$ 2,231	\$ 118,282

c. Revenue Bond

Effective May 18, 2017, the Public Finance Authority issued the \$20,000,000 Educational Facilities Revenue Bond (Union Academy Project) Series 2017 (the "Bond") to provide funds to refund the Educational Facilities Revenue Bond (Union Academy Project) Series 2010, finance the prepayment of a facility lease between the School and Foundation, and to pay certain expenses incurred in connection with the issuance of the Bond. The proceeds received by the Foundation for payment of the lease are used to fund the construction of educational facilities. The Foundation is contingently liable as a guarantor of the revenue bond. Also, effective May 18, 2017, the Public Finance Authority sold the Bond to Branch Banking and Trust Company (now Truist Bank) where it effectively functions as a commercial loan.

The proceeds were used to finance the acquisitions, construction, and equipping of the following:

- i. 34,500 square foot expansion of an existing building to expand the multipurpose room and add additional classrooms
- ii. 68,703 square foot lower school building for classroom and administrative offices
- iii. 40,360 square foot building to house a competition gym, field house and fine arts room.

In January 2021, the School refinanced the Bond with Truist Bank. Interest is based on 81.5% of 30 day LIBOR plus 1.25%. The interest rate at June 30, 2022 was 2.55%.

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

II. Detail Notes on All Funds - Continued

Revenue bond outstanding at year end was as follows:

Educational Facilities Revenue Bond (Union Academy Project),
 Series 2017, principal due monthly in amounts commencing in
 June 2021 ranging from \$42,524 to \$81,470 through May 2042.
 Interest is due monthly. \$ 18,132,134

The future payments of the revenue bond for the years ending June 30 are as follows:

Year Ending June 30	Variable Rate Bonds		
	Principal	Interest	Total
2023	\$ 533,239	\$ 448,777	\$ 982,016
2024	550,002	434,752	984,754
2025	567,296	420,286	987,582
2026	585,137	405,364	990,501
2027	603,533	389,974	993,507
2028-2032	3,314,557	1,701,536	5,016,093
2033-2037	3,865,560	1,237,690	5,103,250
2038-2044	8,112,810	604,259	8,717,069
	<u>\$ 18,132,134</u>	<u>\$ 5,642,639</u>	<u>\$ 23,774,773</u>

d. Changes in General Long-Term Obligations

The following is a summary of the changes in the School's general long-term obligations for the year ended June 30, 2022:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022	Current Portion
Governmental activities:					
Revenue Bonds	\$ 18,649,112	\$ -	\$ 516,978	\$ 18,132,134	\$ 533,239
Lease Obligations	-	116,051	-	116,051	65,132
	<u>\$ 18,649,112</u>	<u>\$ 116,051</u>	<u>\$ 516,978</u>	<u>\$ 18,248,185</u>	<u>\$ 598,371</u>

e. Interest Rate Swap/Derivative Instrument

The School follows accounting guidance for derivative instruments. All derivatives are to be reported on the statement of net position at fair value, and depending on whether a derivative is deemed a hedge or an investment instrument, the changes in fair value are either reported on the statement of net position as a deferral, or in the statement of activities as investment revenue or loss.

On November 13, 2017 the School entered into an interest rate SWAP agreement in connection with the revenue bond issuance of \$20,000,000. This mechanism is intended to be a partial cash flow hedge against changing interest rates of the School's variable rate bonds. The agreement provides the School with a synthetic fixed interest rate on the bond. During the term of the agreement, the School expects to effectively pay a fixed rate on the debt while in return, the counterparty pays interest to the School based on an agreed upon variable rate. The interest rate SWAP is classified as an effective cash flow hedge, since the SWAP payments received substantially offset the payments made on the associated debt and changes in fair value are

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

II. Detail Notes on All Funds - Continued

deferred. In January 2021, in conjunction with the Bond refinance, the School terminated the previous SWAP agreement and entered into a new SWAP agreement.

Terms: The interest rate SWAP agreement matures on January 28, 2036 for a notional amount of \$17,685,170, the face amount of the variable-rate bonds. The notional value of the SWAP is reduced by principal payments on the associated debt. The School receives a variable interest rate based on the 81.50% LIBOR Index, which at June 30, 2022 was .055%, plus 1.25% and pays a fixed rate of 3.099%. Conversely, the variable interest rate is based on the actual floating rate marketed weekly.

Fair Value: The mark-to-market valuation was established by market quotations obtained by the counterparty, representing estimates of the amounts that would be paid or received for replacement transactions. The SWAP had a fair value of \$808,702 at June 30, 2022 due to changes in interest rates since the execution of the SWAP. The School has reported the fair value on the government-wide statement of net position as a governmental activities asset, offset by a deferred inflow of resources.

Credit Risk: The School is exposed to credit risk on the interest rate SWAP that has positive fair value (asset position). When interest rates decline and the fair value of the SWAPs are negative, the School is not exposed to credit risk. However, should interest rates change and the fair value of the SWAP become positive, the School would be exposed to credit risk in the amount of the interest rate SWAP's fair value. The SWAP counterparty was rated A and A1 by Standard & Poor and Moody's, respectively.

Basis Risk: Basis risk is the risk that the interest rate paid by the School on underlying variable rate bond to the bondholder temporarily differs from the variable SWAP rate received from the applicable counterparty. The School bears basis risk on its SWAP. The SWAP has basis risk since the School receives a percentage of LIBOR to offset the actual variable bond rate the School pays on its bond. The School is exposed to basis risk should the floating rate that it receives on a SWAP be less than the actual variable rate the School pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Termination Risk: The School or the counterparty may terminate the SWAP if the other party fails to perform under the terms of the contract. An additional termination event occurs if the counterparty's credit rating falls below investment grade. Termination risk is the risk that the associated variable rate debt no longer carries the synthetic fixed rate and if at the time of termination, a SWAP has a negative fair value, the School is liable to the counterparty for payment equal to the SWAP's fair value.

Rollover Risk: The School is exposed to rollover risk since the SWAP matures prior to the associated debt. When the SWAP terminates, the School will not realize the synthetic rate offered by the SWAP.

5. Claims and Judgments

At June 30, 2022, the School was a defendant to various lawsuits. In the opinion of management and the School's attorney, the ultimate effect of these legal matters will not have a material adverse effect on the School's financial position.

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

II. Detail Notes on All Funds - Continued

C. Interfund Balance

Interfund balances at June 30, 2022, consisted of the following:

Governmental funds:

Balance Sheet:

Due from custodial fund \$ 80,000

Fiduciary fund:

Balance Sheet:

Due to general fund \$ 80,000

D. Fund Balance

The School has a revenue spending policy that provides a policy for programs with multiple revenue sources. The Chief Financial Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-board of education funds, School funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly, unassigned fund balance. The Chief Financial Officer has the authority to deviate from this policy if it is in the best interest of the School.

The total unassigned General Fund balance of \$10,408,414 is available for appropriation.

III. Related Party Transactions

The School pays the salaries for employees of the Foundation and the Foundation then reimburses the School. The total payroll, payroll taxes and benefits reimbursed to the School for the year ended June 30, 2022 was \$158,264.

The School leases educational facilities under a lease agreement from the Foundation as described in Note II.B.4.a.

The School pays the salaries for the employees of the UA Pre-K and the UA Pre-K then reimburses the School to the extent they are able. If the UA Pre-K is unable to reimburse the full amount, the School increases the amount due from other fiduciary funds for repayment at a later date. The total payroll, payroll taxes, and benefits reimbursed to the School for the year ended June 30, 2022 was \$320,316.

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

Union Academy
Notes to Basic Financial Statements
For the Year Ended June 30, 2022

V. Subsequent Events

Management has evaluated subsequent events and transaction through October 31, 2022, the date of issuance of these financial statements for required recognition or disclosure.

SUPPLEMENTARY SCHEDULE

UNION ACADEMY
BUDGETARY COMPARISON SCHEDULE - ALL FUND TYPES
For the Fiscal Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance- Positive (Negative)
REVENUES:				
State of North Carolina	\$ 12,044,000	\$ 12,612,000	\$ 12,891,171	\$ 279,171
Boards of Education:				
Union and other Countis	4,533,000	4,798,000	4,889,858	91,858
U.S. Government	288,500	1,097,530	1,223,363	125,833
Others	50,000	110,000	1,381,164	1,271,164
Total revenues	16,915,500	18,617,530	20,385,556	1,768,026
EXPENDITURES:				
Instructional services:				
Regular instructional	10,050,156	11,226,717	9,963,185	1,263,533
Special populations	1,116,684	1,247,413	1,107,021	140,393
Total instructional services	11,166,840	12,474,130	11,070,205	1,403,925
System-wide support services:				
Support and development	2,338,783	2,438,228	2,790,816	(352,588)
Operational support	2,158,877	2,250,672	2,576,137	(325,465)
Total system-wide support services	4,497,660	4,688,900	5,366,953	(678,053)
Capital outlay	150,000	353,500	722,395	(368,895)
Debt service:				
Principal	520,000	520,000	581,097	(61,097)
Interest and other charges	581,000	581,000	573,658	7,342
Total debt service	1,101,000	1,101,000	1,154,755	(53,755)
Total expenditures	16,915,500	18,617,530	18,314,308	303,222
Excess of revenues over expenditures	-	-	2,071,248	2,071,248
OTHER FINANCING SOURCES AND (USES):				
Lease liabilities issued	-	-	180,170	(180,170)
Total other financing uses	-	-	180,170	(180,170)
Net change in fund balance	\$ -	\$ -	2,251,418	\$ 1,891,078
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Capital Outlay and Leased assets			722,395	
Principal payments			581,097	
Lease obligation			(180,170)	
Amortization of prepaid rent			(891,967)	
Depreciation			(465,719)	
Amortization of lease			(65,096)	
Disposal of assets			(9,239)	
Change in accrued interest			339	
			<u>\$ 1,943,058</u>	

Union Academy
Note to Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2022

Note A. Explanation of differences between budgetary sources and uses of funds and GAAP revenues and expenditures for total governmental funds

Funding sources:

Actual amounts (budgetary basis) "total revenues" from the budgetary comparison schedule - All Fund Types	\$ 20,385,556
Adjustments	-
Total revenues for all funds on a GAAP basis of accounting	20,385,556
Reclassifications:	
The Academy reports sources of funds in the budget as revenues in nonmajor funds for GAAP reporting:	
Federal Grants Fund	(883,816)
Total revenues for general fund and major special revenue fund	<u>\$ 19,501,740</u>
Total revenues as reported on the statements of revenues, expenditures, and changes in fund balances:	
General Fund	\$ 6,271,022
State Public School Fund	<u>13,230,718</u>
Total revenues for general fund and major special revenue fund	<u>\$ 19,501,740</u>

Uses:

Actual amounts (budgetary basis) total expenditures from the budgetary comparison schedule - All Fund Types	\$ 18,314,308
Adjustments	
Proceeds from debt service are not budgeted as they have no net cash effect on the School, however they are recognized for GAAP purposes:	-
Total expenditures for All Fund Types on a GAAP basis of accounting	18,314,308
Reclassifications:	
The Academy reports uses of funds in the budget as expenditures in other nonmajor funds for GAAP reporting:	
Federal Grants Fund	(883,816)
Club and Activities Fund	-
Total expenditures for general fund and major special revenue fund	<u>\$ 17,430,492</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances:	
General Fund	\$ 4,199,774
State Public School Fund	<u>13,230,718</u>
Total expenditures for general fund and major special revenue fund	<u>\$ 17,430,492</u>

COMPLIANCE SECTION



POTTER & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

**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**

Independent Auditors' Report

To the Board of Directors
Union Academy
Monroe, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of **Union Academy** (the "School"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise **Union Academy's** basic financial statements, and have issued our report thereon dated October 31, 2022. Our report includes a reference to other auditors who audited the financial statements of Union Academy Foundation, as described in our report on **Union Academy's** financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of Union Academy Foundation were not audited in accordance with *Governmental Auditing Standards*.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Union Academy'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 our opinion on the effectiveness of **Union Academy's** internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

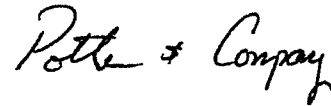
Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did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

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Potte & Company".

October 31, 2022
Monroe, North Carolina



POTTER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

Independent Auditors' Report

To the Board of Directors
Union Academy
Monroe, North Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited **Union Academy's** compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of **Union Academy's** major federal programs for the year ended June 30, 2022. **Union Academy's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, **Union Academy** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 *US Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Audits* (*Uniform Guidance*), and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of **Union Academy** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of **Union Academy's** compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to **Union Academy's** federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on **Union Academy's** compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit performed in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about **Union Academy's** compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding **Union Academy's** compliance with the compliance requirements referred to above and performing such procedures as we consider necessary in the circumstances.
- Obtain an understanding of **Union Academy's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of **Union Academy's** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Potts & Company

October 31, 2022
Monroe, North Carolina



POTTER & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM; REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB UNIFORM GUIDANCE AND
THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

Independent Auditors' Report

To the Board of Directors
Union Academy
Monroe, North Carolina

Report on Compliance for Each Major State Program

Opinion on Each Major State Program

We have audited **Union Academy's** compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of **Union Academy's** major State programs for the year ended June 30, 2022. **Union Academy's** major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, **Union Academy**, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2022.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 *US Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Audits (Uniform Guidance)*, and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of **Union Academy** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on compliance for each major State program. Our audit does not provide a legal determination of **Union Academy's** compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws,

statutes, regulations, rules and provisions of contracts or grant agreements applicable to **Union Academy's** State programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on **Union Academy's** compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit performed in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about **Union Academy's** compliance with the requirements of each major State program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, and the State Single Audit Implementation Act, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding **Union Academy's** compliance with the compliance requirements referred to above and performing such procedures as we consider necessary in the circumstances.
- Obtain an understanding of **Union Academy's** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of **Union Academy's** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

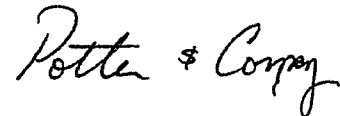
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control

over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Potter & Company".

October 31, 2022
Monroe, North Carolina

*Union Academy
Schedule Of Findings And Questioned Costs
For the Fiscal Year Ended June 30, 2022*

Statement 2
(Page 1 of 3)

I. Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified ___ Yes X No
- Significant deficiencies(s) identified that are not considered to be material weaknesses ___ Yes X None reported

Noncompliance material to financial statements noted ___ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified ___ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses ___ Yes X None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

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

Identification of major federal programs:

CFDA Numbers

84.027
84.425D

Names of Federal Programs or Cluster

Special Education – Cluster
ESSER II (CRRSA)

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

Auditee qualified as low-risk auditee? ___ yes X no

*Union Academy
Schedule Of Findings And Questioned Costs
For the Fiscal Year Ended June 30, 2022*

Statement 2
(Page 2 of 3)

I. Summary of Auditors' Results - Continued

State Awards

Internal control over major State programs:

- Material weakness(es) identified ____ Yes X No
- Significant deficiency(s) identified that are not considered to be material weaknesses ____ Yes X None reported

Type of auditors' report issued on compliance for major State programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act ____ Yes X No

Identification of major State programs:

Program Name

State Public School Fund

Union Academy
Schedule Of Findings And Questioned Costs
For the Fiscal Year Ended June 30, 2022

Statement 2
(Page 3 of 3)

II. Financial Statement Findings

None reported

III. Federal Award Findings and Questioned Costs

None reported

IV. State Award Findings and Questioned Costs

None reported

*Union Academy
Corrective Action Plan
For the Fiscal Year Ended June 30, 2022*

Statement 3

Section II Financial Statement Findings

None reported

Section III Federal Award Findings and Questioned Costs

None reported

Section IV State Award Findings and Questioned Costs

None reported

Union Academy
Summary Schedule Of Prior Year Audit Findings
For the Year Ended June 30, 2022

Statement 4

No prior year findings

Union Academy
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2022

Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing No.	State Number	Expenditures
Federal Grants:			
<u>U. S. Department of Treasury</u>			
Passed-through the Office of State Budget and Management:			
NC Pandemic Recovery Office			
Passed-through the N.C. Department of Public Instruction:			
Coronavirus State and Local Fiscal Recovery Funds	21.027	PRC 141	339,547
Total Coronavirus Relief Fund			339,547
Total U. S. Department of Treasury			339,547
<u>U. S. Department of Education</u>			
<u>Office of Special Education and Rehabilitative Services</u>			
Passed through the NC Department of Public Instruction:			
<u>Special Education Cluster:</u>			
Individuals with Disabilities Education Act			
- Special Education - Education of the Handicapped	84.027	PRC 060	379,220
- Special Education - Preschool Handicapped	84.173	PRC 049	1,773
- Special Needs Targeted Assistance	84.027	PRC 118	7,790
Total Special Education Cluster			388,783
COVID-19 Education Stabilization Fund			
Elementary and Secondary School Emergency Fund (ESSER)			
Governor's Emergency Relief Fund (GEER)			
GEER (CARES ACT)	84.425C	PRC 167-170	65,193
ESSER II (CRRSA))	84.425D	PRC 171-178	205,670
ESSER III (ARP)	84.425D	PRC 182-186, 203	224,170
Total U. S. Department of Education			883,816
Total Federal Assistance			1,223,363
State Grants:			
<u>N.C. Department of Public Instruction</u>			
State Public School Fund	-	PRC 036	12,753,162
Safety & Security	-	PRC 039	82,103
Test AP Bonu	-	PRC 048	4,252
Summer Reading Camps	-	PRC 016	26,655
Exceptional Children - Behavioral Support	-	PRC 029	24,999
Total State Assistance			12,891,171
Total Federal and State Assistance			<u>\$ 14,114,534</u>

Notes to the Schedule of Expenditures of Federal and State Awards:

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Union Academy under the programs of the federal government and the State of North Carolina for the year ended June 30, 2022. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a select portion of the operations of Union Academy, it is not intended to and does not present the financial position, changes in net position or cash flows of Union Academy.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements.