

LAKE COUNTRY CLASSICAL ACADEMY, INC. AND AFFILIATE
Oconomowoc, Wisconsin

Consolidated Audited Financial Statements

Year Ended June 30, 2022

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Independent Auditors' Report

The Board of Directors
Lake Country Classical Academy, Inc. and Affiliate
Milwaukee, Wisconsin

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Lake Country Classical Academy (a nonprofit organization) and affiliate (consolidated as "Organization"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the year ended June 30, 2022, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the year ended June 30, 2022 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization 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 opinions.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 opinion. 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards or an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the Organization'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The information listed in the table of contents as other supplementary information is presented for purposes of additional analysis as required by the *Wisconsin 2r Charter School Audit Manual issued by the Wisconsin Department of Public Instruction* and are also not a required part of the consolidated financial statements. The financial information listed in the table of contents as supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2022 on our consideration of the Organization'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 solely 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 the Organization'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 the Organization's internal control over financial reporting and compliance.

November 25, 2022
Milwaukee, Wisconsin

Lake County Classical Academy, Inc. and Affiliate
Oconomowoc, Wisconsin

Consolidated Statements of Financial Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets:		
Cash and cash equivalents	\$ 608,000	\$ 941,147
Grants receivable, net	266,372	---
Promises to give, net	73,285	---
Prepaid expenses	16,362	---
Security deposits	29,834	---
Inventory	71,170	---
Property and equipment, net	571,322	---
Total assets	\$ 1,636,345	\$ 941,147
Liabilities:		
Accounts payable	\$ 115,994	\$ ---
Accrued interest payable	1,688	---
Payroll and other related liabilities	140,670	5,424
Capital lease liability	29,951	---
Unearned revenue	56,560	---
Notes payable	250,000	800,000
Total liabilities	594,863	805,424
Net Assets:		
Without donor restriction:		
Board designated	3,947	---
Undesignated	964,250	135,723
Total without donor restriction	968,197	135,723
With donor restriction	73,285	---
Total net assets	1,041,482	135,723
Total liabilities and net assets	\$ 1,636,345	\$ 941,147

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

Lake County Classical Academy, Inc. and Affiliate
Oconomowoc, Wisconsin

Consolidated Statement of Activities
For the Year Ended June 30, 2022

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Revenue:			
Federal, state and other government awards	\$ 4,415,956	\$ ---	\$ 4,415,956
Contributions of cash and other financial assets	880,885	73,285	954,170
Contributions of nonfinancial assets	11,400	---	11,400
School activity income	57,607	---	57,607
Food sales	42	---	42
Student fees and fines	30,327	---	30,327
Supply resale	1,095	---	1,095
Rental income	200	---	200
Special events:			
Gross special event revenue	143,531	---	143,531
Less direct benefit to donor	(21,383)	---	(21,383)
Net special event revenue	<u>122,148</u>	<u>---</u>	<u>122,148</u>
Miscellaneous	9,550	---	9,550
Total revenue	<u>5,529,210</u>	<u>73,285</u>	<u>5,602,495</u>
Expenses:			
Program services	3,885,092	---	3,885,092
Management and general	803,585	---	803,585
Fund-raising	8,059	---	8,059
Total expenses	<u>4,696,736</u>	<u>---</u>	<u>4,696,736</u>
Change in net assets	832,474	73,285	905,759
Net assets - beginning of year	135,723	---	135,723
Net assets - end of year	<u>\$ 968,197</u>	<u>\$ 73,285</u>	<u>\$ 1,041,482</u>

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

Lake County Classical Academy, Inc. and Affiliate
Oconomowoc, Wisconsin

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022

	<u>Program</u>			<u>Management and General</u>	<u>Fund-raising</u>	<u>Direct Benefit to Donor</u>	<u>Total</u>
	<u>Instruction</u>	<u>Instructional Support</u>	<u>Total Program</u>				
Expenses:							
Salaries	\$ 1,819,892	\$ 583,264	\$ 2,403,156	\$ 58,679	\$ ---	\$ ---	\$ 2,461,835
Benefits and taxes	399,794	105,522	505,316	48,687	---	---	554,003
Accounting	---	---	---	67,393	---	---	67,393
Communication	---	138	138	17,868	---	---	18,006
Contracted services	51,026	---	51,026	25	---	---	51,051
Depreciation and amortization	22,006	---	22,006	---	---	---	22,006
Dues and fees	47,272	---	47,272	119,749	---	---	167,021
General supplies	106,046	42,125	148,171	54,847	1,987	5,239	210,244
Information technology	1,506	27,716	29,222	90,755	2,095	---	122,072
Insurance	---	---	---	20,152	---	---	20,152
Interest expense	---	---	---	9,293	---	---	9,293
Loan fees	---	---	---	7,920	---	---	7,920
Occupancy	185,545	185,545	371,090	47,711	1,917	---	420,718
Media and non-capitalized equipment	172,567	8,376	180,943	24,911	---	---	205,854
Payment to municipalities	---	---	---	653	---	---	653
Personal services	46,291	73,610	119,901	234,568	2,060	16,144	372,673
Travel	---	4,081	4,081	374	---	---	4,455
Vehicle and equipment rental	320	2,450	2,770	---	---	---	2,770
Total expenses by function	2,852,265	1,032,827	3,885,092	803,585	8,059	21,383	4,718,119
Less expenses included with revenues on the consolidated statement of activities	---	---	---	---	---	(21,383)	(21,383)
Total expenses included with expenses on the consolidated statement of activities	\$ 2,852,265	\$ 1,032,827	\$ 3,885,092	\$ 803,585	\$ 8,059	\$ ---	\$ 4,696,736

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

Lake County Classical Academy, Inc. and Affiliate

Oconomowoc, Wisconsin

Consolidated Statement of Cash Flows

For the Year Ended June 30, 2022

Cash Flows from Operating Activities:	
Change in net assets	\$ 905,759
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation and amortization	22,006
Contributions of capitalized nonfinancial assets	(11,400)
Forgiveness of debt	(500,000)
Changes in assets and liabilities:	
Grants receivable	(266,372)
Promises to give, net	(73,285)
Prepaid expenses	(16,362)
Security deposits	(29,834)
Inventory	(71,170)
Accounts payable	76,300
Accrued interest payable	1,688
Payroll and other related liabilities	135,246
Unearned revenue	56,560
Net cash and cash equivalents provided by operating activities	<u>229,136</u>
Cash Flows From Investing Activities:	
Purchases of property and equipment	(497,703)
Cash Flows From Financing Activities:	
Proceeds from line of credit	450,000
Payments on line of credit	(450,000)
Proceeds on loans	175,000
Payments on loans	(225,000)
Payments on capital leases	(14,580)
Net cash and cash equivalents (used) by financing activities	<u>(64,580)</u>
Net change in cash and cash equivalents	(333,147)
Cash and Cash Equivalents - Beginning of year	<u>941,147</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 608,000</u></u>
Supplemental Cash Flow Information:	
Property and equipment purchases included in accounts payable	<u>\$ 39,694</u>
Property and equipment purchases by capital lease	<u>\$ 44,530</u>
Proceeds on sale of stock donations	<u>\$ 11,918</u>
Noncash donated fixed assets	<u>\$ 11,400</u>
Forgiveness of debt	<u>\$ 500,000</u>
Cash paid for interest	<u>\$ 7,605</u>

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

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Consolidated Financial Statements
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies

A. Nature of Activities

Lake Country Classical Academy, Inc. ("LCCA") is a nonprofit charter school whose purpose is to train the minds and improve the hearts of young people through a content-rich, classical education in the liberal arts and sciences, with instruction in the principles of moral character and civic virtue. LCCA addresses the real need for tuition-free, high-quality, teacher-led education for grades K-12.

The Legacy Committee, Inc. ("TLC") is a Parent Teacher Community nonprofit corporation whose purpose is to support school leadership and encourage both collaboration and communication between parents, faculty, and administration in order to advance the mission of LCCA.

B. Principles of Consolidation

The consolidated financial statements include the accounts of the LCCA and its Affiliate TLC (consolidated as "Organization"). All significant intercompany accounts and transactions have been eliminated.

C. Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities. For internal purposes, the Organization uses fund basis accounting.

D. Consolidated Financial Statement Presentation

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

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resource be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization has no net assets to be held in perpetuity.

E. Use of Estimates in the Preparation of Financial Statements

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

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Consolidated Financial Statements
June 30, 2022 and 2021
(Continued)

1. Summary of Significant Accounting Policies (Continued)

F. Income Tax Status

Both entities comprising the Organization is an exempt from federal and state income taxes on related exempt-function income under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization other than a private foundation. The Organization does not consider any of its support and revenues to be unrelated business income, and accordingly, no provision for income taxes has been provided in the accompanying financial statements.

The Organization has implemented accounting for uncertainty in income taxes in accordance with U.S. GAAP. This standard describes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognizing, interest, penalties and disclosure required. Management of the Organization evaluates the uncertain tax positions taken, if any, and consults with outside counsel as deemed necessary. The Organization recognizes interest and penalties, if any, related to unrecognized tax liabilities in income tax expense. The Organization does not anticipate any income tax liability.

G. Cash and Cash Equivalents

The Organization defines its cash and cash equivalents to include only cash on hand, demand deposits and liquid investments with original maturities of three months or less.

H. Grants Receivable

Grants receivable are recorded at contract value, less management's estimate of uncollectible receivables. Management believes all of these amounts are collectible; therefore, no provisions for uncollectible accounts were recorded. Grants receivable consist primarily of funds due from various governmental entities. Grants receivable represent consideration from state and local government agencies, of which the Organization has an unconditional right to receive.

I. Promises to Give

Promises to give are recorded at their estimated fair value. No allowance for uncollectible promises or discount rate has been provided since management believes that such allowance would not be material.

J. Inventory

Inventory is valued at cost using the first-in/first-out (FIFO) method. Inventory consists of noncapital items acquired for initial use in subsequent fiscal periods.

K. Property and Equipment

Property and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation and amortization of property and equipment is provided on a straight-line basis over the estimated useful life of the assets ranging from three to forty years. The Organization capitalizes all expenditures of land, buildings and equipment in excess of \$5,000. Depreciation and amortization expense for the year ended June 30, 2022 was \$22,006.

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Consolidated Financial Statements
June 30, 2022 and 2021
(Continued)

1. Summary of Significant Accounting Policies (Continued)

L. Unearned Revenue

Income from student fees and special event ticket sales received in advance is deferred and recognized over the period to which the student fee or sponsored events relate.

M. Revenue Recognition

The Organization recognizes revenue based on the existence or absence of an exchange transaction. The Organization recognizes revenue from exchange transactions when it satisfies a performance obligation by providing a service to a student or by transferring control over a product to a student. Revenue from performance obligations satisfied at a point in time consists of the following:

- **Food sales and supply resale** – Recognized at the time the Organization sells goods to a student or when fees and fine.
- **School activity income** – Recognized at the time the Organization collects fees for a student activity.
- **Student fees and fines**– Recognized in the year the fee and fine is attributed to.

Revenue from non-exchange transactions consist of the following:

- **Contributions of cash and promises to give** - received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions that are originally restricted by the donor and for which the restriction is met in the same time-period are recorded as revenue without donor restrictions. Unconditional contributions expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized at prime interest rate and is reported as contribution revenue. Conditional contributions depend on the occurrence of a specified future and uncertain event to bind the donor and are recognized as assets and revenue when the conditions are substantially met, and the gift becomes unconditional. The Organization has conditional promises to give that requires certain matching requirements. See Footnote 11 for additional disclosures on the conditional promises to give.
- **Contributions of nonfinancial assets** - donated property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions of land, buildings, equipment, and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.
- **Federal, state and other government awards** – Federal, state and other government awards are conditional upon the incurrence of allowable qualifying expenses. Revenue is recorded as allowable qualifying expenses incur.

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Consolidated Financial Statements
June 30, 2022 and 2021
(Continued)

1. Summary of Significant Accounting Policies (Continued)

M. Revenue Recognition (Continued)

Revenue that has characteristics of both exchange and non-exchange transactions consist of the following:

- **Special event revenue** – Gross special events revenue includes contributions for the events and fees charged to participants. The cost of direct benefits to donors are subtracted from this amount to arrive at net special event revenue.

N. Allocation of Functional Expenses

The consolidated statement of activities presents the natural classification detail of expenses by function. Occupancy expenses are allocated based on square footage. All remaining expenses within the consolidated statement of activities are direct expenses and therefore no allocation of expenses between program and supporting services is deemed necessary.

O. Subsequent Events

The Organization has evaluated subsequent events for potential recognition and/or disclosure in the financial statements through the date that the financial statements were available to be issued (November 25, 2022). See Note 7 for required disclosures.

2. Liquidity and Availability

Financial assets available for general expenditure and other current contractual obligations, that is, without donor or other restrictions limiting their use, within one year of financial position date, comprise of the following at June 30, 2022:

Cash and cash equivalents	\$ 608,000
Grants receivable, net	266,372
Promises to give, net	<u>73,285</u>
Total financial assets	947,657
Less student activity board designated net assets	<u>(3,947)</u>
Financial assets available to meet obligations within one year	<u>\$ 943,710</u>

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The term note discussed in Note 8 has no balance as of June 30, 2022 and, therefore it is not considered necessary to deduct from the balance.

3. Promises to Give

Included in promises to give are \$73,285 of unconditional promises to give. Payments on promises to give are expected to be received during the year ending June 30, 2023. There were no promises to give for the year ended June 30, 2021.

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Consolidated Financial Statements
June 30, 2022 and 2021
(Continued)

4. Property and Equipment

Property and equipment consist of the following at June 30, 2022:

	<u>Property and Equipment</u>	<u>Leased Property and Equipment</u>	<u>Total</u>
Building	\$ 497,703	\$ ---	\$ 497,703
Equipment	39,695	44,530	84,225
Website development	11,400	---	11,400
Total	<u>548,798</u>	<u>44,530</u>	<u>593,328</u>
Less accumulated depreciation and amortization	(7,163)	(14,843)	(22,006)
Net	<u>\$ 541,635</u>	<u>\$ 29,687</u>	<u>\$ 571,322</u>

There were no property and equipment for the year ended June 30, 2021.

5. Capital Leases

Equipment under capital leases consists of laptops with a combined capitalized cost of \$44,530. The lease expires July 1, 2024, requires monthly payments of \$1,248, and has an implicit interest rate of 11.75%. The leases include \$1 purchase options at the end of the lease period. Interest for the year ended June 30, 2022 was \$1,949. Accumulated amortization expense in the consolidated statements of financial position included \$14,843 in 2022. The future minimum lease payments associated with these leases are as follow for the years ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 14,976	\$ 1,949	\$ 16,925
2024	14,975	1,949	16,924
Total	<u>\$ 29,951</u>	<u>\$ 3,898</u>	<u>\$ 33,849</u>

There were no capital leases for the year ended June 30, 2021.

6. Unearned Revenue

Unearned revenue consists of the following at June 30, 2022:

Student fees	\$ 44,524
Advance ticket sales – special events	12,036
Net	<u>\$ 56,560</u>

There were no unearned revenue for the year ended June 30, 2021.

7. Line of Credit

A line of credit in the amount of \$250,000 was dated July 31, 2021 and due June 30, 2022, at the prime variable interest rate plus 1.00% and shall not be less than 4.25%. Interest rate as of June 30, 2022 was 6.50%. Loan closing fees for the year ended June 30, 2022 was \$2,500. Interest for the year ended June 30, 2022 was \$1,258. The line of credit is for general operations. The Organization agreed to secure this line of credit with collateral defined as cash deposit balances.

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Consolidated Financial Statements
June 30, 2022 and 2021
(Continued)

7. Line of Credit (Continued)

Short-term debt payable at June 30, 2022 is as follows:

<u>Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Balance</u>
<u>July 01, 2021</u>						<u>June 30, 2022</u>
\$ ---		\$ 450,000		\$ (450,000)		\$ ---

Subsequent to year end, the Organization approved a line of credit not to exceed \$500,000. The line of credit has an effective date of September 1, 2022 and is due August 31, 2023 with an interest rate of prime plus 1% with a floor rate of 4.25%. The line of credit is secured by a general business security agreement.

8. Notes Payable

Activity on notes payable of the Organization are as follows:

<u>Type</u>	<u>Balance</u>		<u>Borrowings</u>		<u>Payments</u>		<u>Forgiveness</u>		<u>Balance</u>	<u>Amounts</u>
	<u>July 1, 2021</u>								<u>June 30, 2022</u>	<u>due within</u>
										<u>one year</u>
Promissory Note	\$ 75,000		\$ ---		\$ 75,000		\$ ---		\$ ---	\$ ---
Promissory Note	500,000		---		---		500,000		---	---
Promissory Note	200,000		---		100,000		---		100,000	100,000
Promissory Note	25,000		75,000		---		---		100,000	100,000
Promissory Note	---		25,000		---		---		25,000	25,000
Promissory Note	---		25,000		---		---		25,000	25,000
Term Note	---		50,000		50,000		---		---	---
Total	<u>\$ 800,000</u>		<u>\$ 175,000</u>		<u>\$ 225,000</u>		<u>500,000</u>		<u>\$ 250,000</u>	<u>250,000</u>

Additional information on notes payable are as follows:

<u>Type</u>	<u>Interest</u>	<u>Maturity</u>	<u>Related</u>	<u>Relationship</u>
	<u>Rate</u>	<u>Date</u>	<u>Party</u>	
Promissory Note	6.00%	11/1/2021	Yes	Board member
Promissory Note	2.00%	6/15/2022	No	N/A
Promissory Note	0.00%	5/15/2023	No	N/A
Promissory Note	0.15%	12/31/2022	No	N/A
Promissory Note	6.00%	12/15/2022	Yes	Board member
Promissory Note	4.00%	12/31/2022	Yes	Board member
Term Note	4.25%	6/30/2022	No	N/A

Promissory notes and term notes are unsecured. Interest and loan fees for the year ended June 30, 2022 was \$6,086 and \$5,420, respectfully. The promissory and term notes are for general operations.

9. Net Assets

Net assets without donor restrictions consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Board designated – student activity	\$ 3,947	\$ ---
Undesignated	964,250	135,723
Total	<u>\$ 968,197</u>	<u>\$ 135,723</u>

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Consolidated Financial Statements
June 30, 2022 and 2021
(Continued)

9. Net Assets (Continued)

Net assets with donor restrictions consist of the following at June 30, 2022:

Time restriction		\$	73,285
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There were no net assets with donor restrictions for the year ended June 30, 2021.

10. Contributed Nonfinancial Assets

Contributed nonfinancial assets of non-cash supplies and services are recorded as revenue and expenses at their fair value. Contributed services are reported in the financial statements for voluntary donations of professional services when those services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically would be purchased if not provided by donation. The amounts reflected in the accompanying consolidated financial statements as contributed nonfinancial assets are offset by like amounts included in expenses, receivables or as additions to property and equipment. The consolidated statement of activities includes the following contributed nonfinancial assets recognized by category for the year ended June 30, 2022:

<u>Type</u>	<u>Revenue</u>	<u>Utilization in Program/Activities</u>	<u>Donor Restrictions</u>
Website Design	\$ 11,400	Administrative	None

The Organization used the following valuation techniques and inputs to recognize contributed nonfinancial assets:

Website Design services – Valued at the estimated fair value based on retail rates for similar services.

For the year ended June 30, 2022, the Organization received contributed fixed assets of \$11,400 which was capitalized.

The Organization also received contributed services for its various programs from volunteers which do not meet the recognition criteria described above. No amounts have been reflected in the financial statements for these contributed services.

11. Conditional Promises to Give

The Organization has conditional promises to give that requires certain matching requirements. Activity on the conditional promise to give is as follows for the year ended June 30, 2022:

<u>Type</u>	<u>Present Value Discount %</u>	<u>Conditional Amount</u>	<u>Previously Recognized</u>	<u>Current Recognized</u>	<u>Present Value Discount</u>	<u>Balance June 30, 2022</u>
Phase I	N/A	\$ 250,000	\$ ---	\$ 183,015	---	\$ 66,985
Phase II	2.00%	250,000	---	---	(831)	249,169
Total		\$ 500,000	\$ ---	\$ 183,015	\$ (831)	\$ 316,154

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Consolidated Financial Statements
June 30, 2022 and 2021
(Continued)

11. Conditional Promises to Give (Continued)

Matching requirements and restrictions on the Organization's conditional promises to give are as follows:

Phase I – Match requirement only. There are no donor-imposed restrictions.

Phase II – Match requirement. All funds received and raised to meet match requirement will be restricted for the future capital campaign.

Conditional promises to give are discounted to present value using the average borrowing rate for the fiscal year the pledge was received.

12. Revenue

Revenue, disaggregated by type, consists of the following for the year ended June 30, 2022:

Exchange:	
School activity income	\$ 57,607
Student fees and fines	30,327
Other exchange	1,137
Total exchange	89,071
Nonexchange:	
Federal, state and other government awards	4,415,956
Contributions of cash and other financial assets	954,170
Contributions of nonfinancial assets	11,400
Total nonexchange	5,381,526
Rental income	200
Special event, net	122,148
Miscellaneous	9,550
Total revenue	\$ 5,602,495

13. Special Events

Special event activities are netted on the statement of activities. Gross special event revenues and expenses for the year ended June 30, 2022 is as follows:

Special event revenue - contributions	\$ 96,457
Special event revenue – ticket sales	47,074
Total revenue	143,531
Less cost of direct benefit to donors	(21,383)
Special event revenue, net	122,148
Less other non-direct expenses	(8,059)
Special events, net	\$ 114,089

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Consolidated Financial Statements
June 30, 2022 and 2021
(Continued)

14. Operating Leases

The Organization has two thirty-six-month leases for occupancy expiring in June 2024 with monthly payments of \$11,500 and \$13,750. Building occupancy lease expense was \$386,137 for the year ended June 30, 2022.

In June 2022, the Organization signed a thirty-six-month lease for modular classrooms to commence in August 2022 and expire in August 2025. There were no expenses associated with this lease for the year ended June 30, 2022.

The Organization has a sixty-month lease for a copier expiring June 2026. Copier lease expense, including variable charges, was \$10,120 for the year ended June 30, 2022.

The future minimum lease payments associated with these leases are as follow for the years ending June 30:

2023	\$ 489,395
2024	528,535
2025	115,531
2026	14,991
Total	<u>\$ 1,148,452</u>

15. Related Party Transactions

As disclosed in Note 8, the Organization has multiple unsecured promissory notes with members of the board of directors. Total interest expensed and accrued on these promissory notes for the year ended June 30, 2022 was \$3,436 and \$1,561, respectively. Total related party liabilities for the years ended June 30, 2022 and 2021 was \$50,000 and \$75,000, respectively.

16. Concentrations

The Organization received \$3,790,812 in revenue from one grant from the Wisconsin Department of Public Instruction during the year ended June 30, 2022 which represented 68% of total operating revenue.

The Organization received \$683,015 in revenue from one donor during the year ended June 30, 2022 which represented 12% of total operating revenue.

17. Commitments and Contingencies

The Organization has received state and federal funds for specific purposes. Such funds are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, management believes all compliance requirements have been met.

The Organization's financial instruments are exposed to concentrations of credit risk consisting of cash. The Organization maintains its cash with three financial institutions. The total cash balances of the Organization are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per bank. The Organization held cash throughout the year which, at times, exceeded the balance insured by the FDIC. The Organization monitors such credit risk and has not experienced any losses related to such risks.

The Organization, along with another Organization, has a paving contract to begin in July 2022. The estimated annual cost to the Organization for this agreement is \$22,000.

Lake County Classical Academy, Inc. and Affiliate
Oconomowoc, Wisconsin

Consolidated Statement of Financial Position by Fund
June 30, 2022

	General Fund	Special Revenue Fund	Special Education Fund	Property and Equipment Fund	Eliminations	Total
Assets:						
Cash and equivalents	\$ 607,879	\$ ---	\$ 121	\$ ---	\$ ---	\$ 608,000
Grants receivable, net	266,372	---	---	---	---	266,372
Due from other funds	9,788	---	---	---	(9,788)	---
Promises to give, net	73,285	---	---	---	---	73,285
Prepaid expenses	10,000	---	6,362	---	---	16,362
Security deposits	29,834	---	---	---	---	29,834
Inventory	71,170	---	---	---	---	71,170
Property and equipment, net	---	---	---	571,322	---	571,322
Total assets	\$ 1,068,328	\$ ---	\$ 6,483	\$ 571,322	\$ (9,788)	\$ 1,636,345
Liabilities:						
Accounts payable	\$ 109,511	\$ ---	\$ 6,483	\$ ---	\$ ---	\$ 115,994
Accrued interest payable	1,688	---	---	---	---	1,688
Payroll and other related liabilities	140,670	---	---	---	---	140,670
Capital lease liability	29,951	---	---	---	---	29,951
Due to other funds	---	9,788	---	---	(9,788)	---
Unearned revenue	56,560	---	---	---	---	56,560
Notes payable	250,000	---	---	---	---	250,000
Total liabilities	588,380	9,788	6,483	---	(9,788)	594,863
Fund Balances (deficits):						
Without donor restriction:						
Undesignated	406,663	(13,735)	---	571,322	---	964,250
Board designated	---	3,947	---	---	---	3,947
Total without donor restriction	406,663	(9,788)	---	571,322	---	968,197
With donor restriction	73,285	---	---	---	---	73,285
Total fund balance (deficits)	479,948	(9,788)	---	571,322	---	1,041,482
Total liabilities and fund balance	\$ 1,068,328	\$ ---	\$ 6,483	\$ 571,322	\$ (9,788)	\$ 1,636,345

See Independent Auditors' Report.

Lake County Classical Academy, Inc. and Affiliate
Oconomowoc, Wisconsin

Consolidated Statement of Activities by Fund
For the Year Ended June 30, 2022

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Special Education Fund</u>	<u>Property and Equipment Fund</u>	<u>Total</u>
Revenue:					
Federal, state and other government awards	\$ 4,356,146	\$ ---	\$ 59,810	\$ ---	\$ 4,415,956
Contributions of cash and other financial assets	954,170	---	---	---	954,170
Contributions of nonfinancial assets	11,400	---	---	---	11,400
School activity income	24,747	32,860	---	---	57,607
Food sales	42	---	---	---	42
Student fees and fines	30,327	---	---	---	30,327
Supply resale	1,095	---	---	---	1,095
Rental income	200	---	---	---	200
Special events:					
Gross special event revenue	143,531	---	---	---	143,531
Less direct benefit to donor	(21,383)	---	---	---	(21,383)
Net special event revenue	122,148	---	---	---	122,148
Miscellaneous	9,550	---	---	---	9,550
Total revenue	5,509,825	32,860	59,810	---	5,602,495
Expenses:					
Salaries	2,132,123	---	329,712	---	2,461,835
Benefits and taxes	457,045	---	96,958	---	554,003
Accounting	67,393	---	---	---	67,393
Communication	18,006	---	---	---	18,006
Contracted services	25	---	51,026	---	51,051
Depreciation and amortization	---	---	---	22,006	22,006
Dues and fees	124,192	42,529	300	---	167,021
General supplies	204,036	119	850	---	205,005
Information technology	122,072	---	---	---	122,072
Insurance	20,152	---	---	---	20,152
Interest expense	9,293	---	---	---	9,293
Loan fees	7,920	---	---	---	7,920
Occupancy	420,718	---	---	---	420,718
Media and non-capitalized equipment	204,649	---	1,205	---	205,854
Payment to municipalities	653	---	---	---	653
Personal services	284,735	---	71,794	---	356,529
Travel	4,455	---	---	---	4,455
Vehicle and equipment rental	2,770	---	---	---	2,770
Total expenses	4,080,237	42,648	551,845	22,006	4,696,736
Transfers:					
Transfer to special education fund	(492,035)	---	492,035	---	---
Transfer to fixed asset fund	(593,328)	---	---	593,328	---
Total transfers	(1,085,363)	---	492,035	593,328	---
Change in fund balance	344,225	(9,788)	---	571,322	905,759
Fund balance, beginning of year	135,723	---	---	---	135,723
Fund balance (deficit), end of year	\$ 479,948	\$ (9,788)	\$ ---	\$ 571,322	\$ 1,041,482

See Independent Auditors' Report.

Lake County Classical Academy, Inc. and Affiliate
Oconomowoc, Wisconsin

Schedule of Expenditures of Federal, State and Other Awards
For the Year Ended June 30, 2022

<u>Federal Awards</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-Through Entity Identifying Number(s)</u>	<u>Grant Expenditures</u>	<u>Subrecipient Awards</u>
U.S. Department of Education:				
Passed through Wisconsin Department of Public Instruction:				
ESEA Title V - Charter Schools	84.282	2022-678147-DPI-WCSP1-360	\$ 439,999	\$ ---
<i>Education Stabilization Funds:</i>				
Elementary and Secondary School Emergency Relief:				
COVID 19 - Elementary and Secondary School Emergency Relief Round III	84.425U	2022-678147-DPI-ESSERFIII-165	84,000	---
<i>Special Education Cluster ("IDEA"):</i>				
IDEA Flow Through Entitlement	84.027A	2022-678147-DPI-FLOW-341	39,209	---
COVID-19 - IDEA Flow Through Entitlement	84.027A	2022-678147-DPI-FLOW-344	8,770	---
<i>Subtotal Special Education Cluster</i>			47,979	---
Total U.S. Department of Education			571,978	---
U.S. Department of Health and Human Services:				
Passed through Wisconsin Department of Health and Human Services				
<i>Medicaid Cluster</i>				
Medical Assistance Program	93.778	100187422	11,831	---
Total Federal Awards			\$ 583,809	\$ ---
<u>State Awards</u>	<u>State ID Number</u>		<u>Grant Amount</u>	
Wisconsin Department of Public Instruction:				
Charter Schools State Aid				
	255.109	678147-115	\$ 3,790,812	\$ ---
Assessments of Reading Readiness				
	255.956	678147-166	2,478	---
Total Wisconsin Department of Public Instruction			3,793,290	---
Total State Awards			\$ 3,793,290	\$ ---
<u>Other Awards</u>	<u>State ID Number</u>		<u>Grant Amount</u>	
Wisconsin Department of Administration:				
Coronavirus Relief Funds for Public Schools				
	N/A	N/A	\$ 26,342	\$ ---
Get Kids Ahead Initiative				
	N/A	N/A	12,515	---
Total Other Awards			38,857	---
Total Expenditures of Federal, State and Other Awards			\$ 4,415,956	\$ ---

See Independent Auditors' Report and Notes to Schedule of Expenditures of Federal and State Awards.

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Notes to Schedule of Expenditures of Federal, State and Other Awards
June 30, 2022

1. Basis of Presentation

The accompanying "Schedule of Expenditures of Federal, State and Other Awards" (the "Schedule") includes the federal and state award activity of the Organization under programs of the federal and state government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of the *Wisconsin 2r Charter School Audit Manual issued by the Wisconsin Department of Public Instruction*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, change in net assets, or cash flow of the Organization. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the consolidated financial statements.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in the *Wisconsin 2r Charter School Audit Manual*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Organization did not use the 10% de minimis indirect cost rate.

4. Special Education and School-Age Parents

Total DPI aidable expenditures for the year ended June 30, 2022 were \$449,718.



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

Board of Directors
Lake Country Classical Academy, Inc. and Affiliate
Oconomowoc, Wisconsin

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 consolidated financial statements of Lake Country Classical Academy, Inc. and Affiliate ("the Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statement of activities, statement of functional expense, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 25, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-001 and 2022-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as items 2022-002 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. 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*.

Organization's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Organization's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on them.

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.

November 25, 2022
Milwaukee, Wisconsin



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE WISCONSIN 2r CHARTER
SCHOOL AUDIT GUIDELINES**

Board of Directors
Lake Country Classical Academy, Inc. and Affiliate
Oconomowoc, Wisconsin

Report on Compliance for Each Major State Program

Opinion on Each Major State Program

We have audited Lake Country Classical Academy, Inc. and Affiliate (“Organization”) compliance with the types of compliance requirements described in the *Wisconsin 2r Charter School Audit Manual* that could have a direct and material effect on each of the Organization’s major state programs for the year ended June 30, 2022. The Organization’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, the Organization 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 the audit requirements the *Wisconsin 2r Charter School Audit Manual*, issued by the Wisconsin Department of Public Instruction. Our responsibilities under those standards and the *Wisconsin 2r Charter School Audit Manual* are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization 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 basis for our opinion on compliance for each major state program. Our audit does not provide a legal determination of the Organization’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, state statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization’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 the Organization'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 conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Wisconsin 2r Charter School Audit Manual* 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 the 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 the Organization's compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Wisconsin 2r Charter School Audit Manual*, 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 the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization'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 *Wisconsin 2r Charter School Audit Manual*, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-003 to be a material weakness.

Report on Internal Control Over Compliance (Continued)

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our 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.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and responses. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 *Wisconsin 2r Charter School Audit Manual*. Accordingly, this report is not suitable for other purposes.

November 25, 2022
Milwaukee, Wisconsin

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Schedule of Prior Year Audit Findings
Year Ended June 30, 2022

Not applicable; first year of operations.

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Schedule of Findings and Responses
Year Ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|------------|
| 1. Type of report the auditors' issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| 2. Internal control over financial reporting: | |
| A. Material weakness(es) identified? | Yes |
| B. Significant deficiency(ies) identified? | Yes |
| 3. Noncompliance material to financial statements noted? | No |

State Awards

- | | |
|---|---------------|
| 10. Internal control over major state programs: | |
| A. Material weakness(es) identified? | Yes |
| B. Significant deficiency(ies) identified? | None Reported |
| 11. Type of auditors' report issued on compliance for major programs: | Unmodified |
| 12. Any audit findings disclosed that are required to be reported in accordance with Wisconsin State Single Audit Guidelines? | Yes |
| 13. Identification of major state programs: | |

CFDA Number

Name of State Program or Cluster

255.109

Charter Schools State Aid

- | | |
|-----------------------|-----------|
| 14. Type A threshold: | \$250,000 |
|-----------------------|-----------|

Section II - Financial Statement Findings

Reference Number: 2022-001

Description: Audit Adjustments

Criteria and Condition: Statements on Auditing Standards AU §314.41 states it is the responsibility of management to implement proper internal controls to provide reasonable assurance about the achievement of the Organization's objectives regarding the reliability of financial reporting. After fieldwork began, journal entries were required to prevent the Organization's consolidated financial statements from being materially misstated.

Cause: Inadequate controls to ensure the proper recording of the Organization's financial reporting in accordance with accounting principles generally accepted in the United States of America.

Effect: Without the above audit adjustments, the consolidated financial statements of the Organization would have been materially misstated for the following reasons:

- Assets were increased by approximately \$243,000
- Liabilities were increased by approximately \$196,000
- Revenues were decreased by approximately \$474,000
- Expenses were decreased by approximately \$257,000

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Schedule of Findings and Responses
(Continued)
Year Ended June 30, 2022

Section II - Financial Statement Findings (Continued)

Reference Number: 2022-001

Description: Audit Adjustments (Continued)

Identification of a Repeat Finding: This is not a repeat finding.

Auditors' Recommendation: We recommend management review the nature of these entries to determine if these types of adjustments could be made during the year as part of the ordinary financial reporting process

Corrective Action Plan: See attachment for Organization's corrective action plan.

Reference Number: 2022-002

Description: Financial Statement Preparation

Criteria: Statements on Auditing Standards AU §325.29 states it is a deficiency in the design of controls to have inadequate controls over the preparation of the consolidated financial statements being audited.

Condition: The consolidated financial statements of the Organization should be prepared in accordance with Accounting Principles Generally Accepted in the United States of America ("GAAP"). Preparation of the Organization's consolidated financial statements and footnote disclosures in accordance with GAAP requires a very high level of technical experience and expertise. The Organization's consolidated financial statements could be misstated and required footnote disclosures could be missing.

Cause: The Organization's staff does not have the necessary resources to properly apply GAAP in the preparation of these documents. The Organization has decided to rely on the technical experience and expertise of its auditors and have requested us to prepare the consolidated financial statements and footnote disclosures in accordance with GAAP.

Effect: The Organization's consolidated financial statements could be misstated and required footnote disclosures could be missing.

Identification of a Repeat Finding: This is not a repeat finding.

Auditors' Recommendation: We recommend the Organization continue to assign a staff member to review the consolidated financial statements prepared by its auditors.

Views of Responsible Officials: See attachment for Organization's corrective action plan.

LAKE COUNTRY CLASSICAL ACADEMY INC. and AFFILIATE
Oconomowoc, Wisconsin

Schedule of Findings and Responses
(Continued)
Year Ended June 30, 2022

Section II - Financial Statement Findings (Continued)

Reference Number: 2022-003

Program Name: 255.109 – Charter School Aid

Description: Credit Card Transactions

Condition and Criteria: During our testing of credit card transactions, we noted that the Organization did not retain credit card statements or receipts for one of the two months selected at random.

Cause: The Organization did not follow requirements of the Wisconsin Department of Instruction of ensuring adequate support is retained for expenses.

Questioned Costs: Total questioned costs are unknown as eligible District expenses were unverifiable.

Effect: The Organization is not in compliance with Charter School Aid requirements.

Identification of a Repeat Finding: This is not a repeat finding.

Auditors' Recommendation: We recommend the Organization maintain all credit card statements, require employees to turn in receipts and that the Charter retain the receipts.

Views of Responsible Officials: See attachment for Organization's corrective action plan.

Section III - State Award Findings and Questioned Costs

See 2022-003 above.

Section IV – Other Issues

- | | | |
|----|---|--|
| 1. | Does the auditors' report or the notes to the consolidated financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? | No |
| 2. | Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the <i>Wisconsin State Single Audit Guidelines</i> :
Department of Public Instruction | Yes |
| 3. | Was a Management Letter or other document conveying audit comments issued as a result of this audit? | Yes |
| 4. | Name and signature of partner | <hr/> |
| 5. | Date of Report | Jason Wrasse, CPA
November 25, 2022 |



Corrective Action Plan

Reference Number: 2022-001

Description: Audit Adjustments

Corrective Action Plan: Lake Country Classical Academy will complete journal entries with support prior to the audit for fiscal year 2022-23.

Anticipated Corrective Action Plan Completion Date: Ongoing.

Contact Information: For additional information regarding this finding please contact Lori Kaari, Controller, at 262-254-9044.

Reference Number: 2022-002

Description: Financial Statement Preparation

Corrective Action Plan: Lake Country Classical Academy will continue to rely on the expertise of an accounting firm to prepare the financial statements, as the cost of training is not feasible to the Organization. The Organization will continue to review a draft of the financial statements and ask questions prior to giving approval to finalize the financial statements.

Anticipated Corrective Action Plan Completion Date: Ongoing.

Contact Information: For additional information regarding this finding please contact Lori Kaari, Controller, at 262-254-9044.

Reference Number: 2022-003

Description: Credit Card Transactions

Corrective Action Plan: Lake Country Classical Academy will have credit card transactions on file for fiscal year 2022-23.

Anticipated Corrective Action Plan Completion Date: Ongoing.

Contact Information: For additional information regarding this finding please contact Lori Kaari, Controller, at 262-254-9044.

Lori Kaari
Controller
lkaari@lakecountryclassical.org
262-254-9044