

**NASHVILLE PREPARATORY
CHARTER SCHOOL**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2013

NASHVILLE PREPARATORY CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nashville Preparatory Charter School
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund, of Nashville Preparatory Charter School as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Nashville Preparatory Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Nashville Preparatory Charter School as of June 30, 2013, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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 historical 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nashville Preparatory Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury's *Audit Manual* and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards and state financial assistance 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, the schedule of expenditures of federal awards and state financial assistance is fairly stated, in all material respects, in relation to the basic 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 December 27, 2013, on our consideration of Nashville Preparatory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Car, Riggs & Ingram

Nashville, Tennessee
December 27, 2013

NASHVILLE PREPARATORY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Our discussion and analysis of Nashville Prep's annual financial performance provides an overview of Nashville Prep's financial activities for the year ended June 30, 2013. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the School exceeded its liabilities by \$604,840.
- Net position increased by \$277,150 during the year.
- Outlays for new capital assets totaled \$231,400.
- Total revenues of \$2,362,580 were comprised of federal pass-through funds (16%), district funds (78%), and charitable contributions (6%) for the year ended June 30, 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of a series of financial statements, notes to those statements and supplementary information. The statements are organized so that the reader can understand the School as a whole and then proceed to a detailed look at its specific financial activities.

REPORTING NASHVILLE PREP AS A WHOLE

In general, the Statement of Net Position as well as the Statement of Activities reports will indicate the overall benefit or detriment of Nashville Prep throughout the year of operation. These statements include information regarding all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 8.

The Statement of Net Position reports Nashville Prep's total assets less total liabilities. Nashville Prep's net asset balance at year end represents available resources for future growth. The Statement of Activities reports the change in net position as a result of activity during the year and also assists in determining Nashville Prep's financial health during the year. Reviewers of these reports will want to consider both non-financial factors and financial data before arriving at a conclusion regarding the overall health of Nashville Prep.

FUND FINANCIAL STATEMENTS

Nashville Prep's fund financial statements, which are comprised of the balance sheet and the statement of revenues, expenditures and changes in fund balances, begin on page 10. These statements provide detailed information about Nashville Prep's most significant funds, not Nashville Prep as a whole. Funds are established by Nashville Prep to help manage money for particular purposes and compliance with various grant provisions.

Nashville Prep's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the school-wide financial statements to report on Nashville Prep as a whole. The relationship between governmental activities, as reported in the statement of net position and the statement of activities, and governmental funds, as reported in the

balance sheet and the statement of revenues, expenditures and changes in fund balances is reconciled in the basic financial statements on pages 11 and 13.

SCHOOL-WIDE FINANCIAL ANALYSIS

Net Position

The School's assets exceeded the School's liabilities at the close of the fiscal year, resulting in a net position of \$604,840. The School's net position includes \$442,677 of cash, all of which is available to meet the School's ongoing activities.

As of June 30, 2013, the School had invested a total of \$283,873 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, renovations to the McCann building, maintenance equipment, and books for instructional purposes. Nashville Prep expects additional capital asset investments in the 2013-14 school year, as student enrollment is expected to increase by approximately 110 students, due to the addition of another grade level.

Nashville Prep currently leases facility space from Metro Nashville Public Schools. This lease agreement allows Nashville Prep to use the McCann Building, located in West Nashville, for ten years.

Nashville Prep had a \$150,000 line of credit with Pinnacle Financial Partners during the 2012-13 fiscal year. Nashville Prep has since increased the credit limit to \$200,000 for the fiscal year ending in 2014.

A schedule of the School's net position as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Current assets	\$ 600,764	\$ 292,217
Capital assets, net	<u>283,873</u>	<u>70,760</u>
Total assets	<u>884,637</u>	<u>362,977</u>
Current liabilities	<u>279,797</u>	<u>35,287</u>
Total liabilities	<u>279,797</u>	<u>35,287</u>
Net position:		
Invested in capital assets	283,873	70,760
Unrestricted	<u>320,967</u>	<u>256,930</u>
Total net position	<u>\$ 604,840</u>	<u>\$ 327,690</u>

Changes in Net Position

The School's total net position increased \$277,150 during 2013 fiscal year. The increase in net position indicates that Nashville Prep had more incoming revenues than outgoing expenses during the year. Total revenues generated from government grants, governmental funds, and contributions were \$2,362,580 during the year ended June 30, 2013. Contributions from individuals and organizations were \$142,906 due primarily to support from individual and corporate donors and the identification of new individual donors. These contributions proved to be crucial to the School's academic success. Finally, District funding during the year totaled \$1,869,993.

Total expenses were \$2,085,430 during the year ended June 30, 2013. The majority of these expenses are related to Nashville Prep's further implementation of the charter school, employee compensation, instruction, and occupancy.

The change in net position was \$277,150. The increases in revenue from contributions, district funding, and federal grants more than offset the School's expenses.

A schedule of the School's revenue and expenses for the year ended June 30, 2013 and period from August 9, 2010 to June 30, 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Contributions	\$ 142,906	\$ 311,605
District funding	1,869,993	786,640
Operating grants and contributions	343,302	644,249
Charges for services	6,363	2,464
Other	16	2,752
Total revenues	<u>2,362,580</u>	<u>1,747,710</u>
Salaries, wages, and benefits	1,134,504	703,160
Food service	121,601	63,407
Instructional	139,427	144,636
Rent and occupancy	224,214	130,255
Office	75,491	66,865
Organizational development	22,276	56,072
Other	57,576	43,519
Professional services and fees	82,890	45,906
Staff development	50,489	54,996
Transportation	158,675	101,344
Depreciation	18,287	9,860
Total expenses	<u>2,085,430</u>	<u>1,420,020</u>
Change in net position	<u>\$ 277,150</u>	<u>\$ 327,690</u>

The schedule is for the School as a whole, not for the governmental fund.

FINANCIAL ANALYSIS OF NASHVILLE PREP'S FUNDS

The School's funds, as presented on the Balance Sheet on page 10, report a combined fund balance of \$268,000. All of the School's funds are in the General Fund, which is the chief operating fund of the School.

Due to the different basis of accounting, there is a difference between the amounts reported under the School's funds and the amounts reported as school-wide. For the year ended June 30, 2013, the differences consist of capital assets, depreciation, and amounts for the year not received within 60 days of year-end, which are not reported in the School's funds.

NASHVILLE PREP ACTIVITIES

Nashville Prep recruits students from Davidson County, primarily North Nashville, Bordeaux, Antioch, and East Nashville. We are an open enrollment public school and accept students from a wide range of academic and socioeconomic backgrounds. At Nashville Prep, we firmly believe that every student, regardless of background, can and will graduate from a four year college. Everything we do is in service of our true north: college graduation. Our rigorous academic program and strict discipline system prepare our scholars to be successful in college and beyond.

Instruction

Nashville Prep has a longer school day and a longer school year, allowing our students to receive substantially more instruction than their counterparts in traditional public schools. Nashville Prep students attend school from 7:30am - 5:00pm. We offer two hours of math instruction and three hours of literacy instruction each day. Our students also receive an hour of small group tutoring each day, allowing us to target academic deficiencies. Over the summer, we offer math instruction to incoming 5th graders, as well as summer school for our current students. The Nashville Prep school year begins with a weeklong orientation emphasizing culture and character.

Testing Performance

Nashville Prep exceeded the performance of Metro Nashville Public Schools (MNPS) and other Nashville area charters in the 2012-2013 school year, as measured by the Tennessee Comprehensive Assessment Program (TCAP). Nashville Prep 6th grade students scored the highest of any open enrollment public schools in Nashville on the 6th grade TCAP in all subjects. Additionally, Nashville Prep 6th grade students outperformed Williamson County, the highest achieving county in the state, on three out of four TCAP exams. Nashville Prep 5th grade students achieved the highest growth in Tennessee on the Reading, Science, and Social Studies TCAP exams. Nashville Prep was named a Reward School by the Tennessee Department of Education, which indicated that our growth was in the highest 5% of all schools in the state. For the second year in a row, Stanford's Credo study ranked Nashville Prep the top performing charter school in Tennessee.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Enrollment: Enrollment for the year ending June 30, 2014 is projected to be 305, an increase of 115 students to account for adding 7th grade classes. Revenues: state and federal revenues are budgeted at approximately \$3.36 million. Expenditures: Student and staff related expenses are expected to increase with the additional student enrollment. Overall expenses will increase as a percentage of total revenues. Total expenditures are budgeted at \$3.52 million, producing an estimated budgeted operating deficit of approximately \$160,000, after the expenditure of \$240,000 for leasehold improvements.

CONTACTING NASHVILLE PREP'S FINANCIAL MANAGEMENT

This financial report is designed to provide Nashville Prep families, Davidson County taxpayers, local and national donors, creditors, authorities over grant funding, and agencies tasked with oversight of Metro Nashville's public schools with a general overview of Nashville Prep's finances and written accountability of the school's fiscal activities.

If you have questions about this report or need additional financial information, contact Nashville Prep's Director of Operations, Kate Cooper, by telephone at (615) 921-8440 or by email at kcooper@nashvilleprep.org.

NASHVILLE PREPARATORY CHARTER SCHOOL

STATEMENT OF NET POSITION

JUNE 30, 2013

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash	\$ 442,677
Receivables	52,967
Other current assets	105,120
Capital assets, net	<u>283,873</u>
 TOTAL ASSETS	 <u>\$ 884,637</u>
LIABILITIES	
Accounts payable	\$ 109,142
Accrued expenses	<u>170,655</u>
 TOTAL LIABILITIES	 279,797
NET POSITION	
Invested in capital assets	283,873
Unrestricted	<u>320,967</u>
 TOTAL NET POSITION	 <u>604,840</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 884,637</u>

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2013

SCHOOL ACTIVITIES:	TOTAL	FUNCTIONS			
		STUDENT INSTRUCTION AND SERVICES	FOOD SERVICES	STUDENT TRANSPORTATION	ADMINISTRATION
EXPENSES					
Salaries, wages, and benefits	\$ 1,134,504	\$ 832,534	\$ -	\$ -	\$ 301,970
Food service	121,601	-	121,601	-	-
Instructional	139,427	139,427	-	-	-
Rent and occupancy	224,214	179,371	-	-	44,843
Office	75,491	-	-	-	75,491
Organizational development	22,276	-	-	-	22,276
Other	57,576	-	-	-	57,576
Professional services and fees	82,890	-	-	-	82,890
Staff development	50,489	49,989	-	-	500
Transportation	158,675	-	-	158,675	-
Depreciation	18,287	14,326	-	-	3,961
TOTAL EXPENSES	2,085,430	1,215,647	121,601	158,675	589,507
PROGRAM REVENUES					
Charges for services	6,363	-	6,363	-	-
Operating grants and contributions	343,302	233,730	109,572	-	-
NET PROGRAM EXPENSES	1,735,765	981,917	5,666	158,675	589,507
GENERAL REVENUES					
District funding	1,869,993				
Contributions	142,906				
Other	16				
TOTAL GENERAL REVENUES	2,012,915				
CHANGE IN NET POSITION	277,150				
NET POSITION, BEGINNING OF YEAR	327,690				
NET POSITION, END OF YEAR	\$ 604,840				

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

BALANCE SHEET - GOVERNMENTAL FUND

JUNE 30, 2013

	<u>GENERAL FUND</u>
ASSETS	
Cash	\$ 442,677
Other current assets	105,120
	<hr/>
TOTAL ASSETS	<u>\$ 547,797</u>
LIABILITIES	
Accounts payable	\$ 109,142
Accrued expenses	170,655
	<hr/>
TOTAL LIABILITIES	279,797
FUND BALANCES	
Nonspendable	105,120
Unassigned	162,880
	<hr/>
TOTAL FUND BALANCES	<u>268,000</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 547,797</u></u>

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2013

TOTAL GOVERNMENTAL FUND BALANCES	\$	268,000
Revenues unavailable to pay current year expenditures		52,967
Capital assets used in governmental activities		<u>283,873</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION	\$	<u><u>604,840</u></u>

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND YEAR ENDED JUNE 30, 2013

	<u>GENERAL FUND</u>
REVENUES	
District funding	\$ 1,817,026
Operating grants and contributions	343,302
Charges for services	6,363
Contributions	142,906
Other	16
	<hr/>
TOTAL REVENUES	2,309,613
	<hr/>
EXPENDITURES	
CURRENT	
Salaries, wages, and benefits	1,134,504
Food service	121,601
Instructional	139,427
Rent and occupancy	224,214
Office	75,491
Organizational development	22,276
Other	57,576
Professional services and fees	82,890
Staff development	50,489
Transportation	158,675
TOTAL CURRENT EXPENDITURES	<hr/> 2,067,143
CAPITAL OUTLAYS	<hr/> 231,400
TOTAL EXPENDITURES	<hr/> 2,298,543
	<hr/>
CHANGE IN FUND BALANCE	11,070
FUND BALANCE, BEGINNING OF YEAR	<hr/> 256,930
FUND BALANCE, END OF YEAR	<hr/> <hr/> \$ 268,000

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2013

NET CHANGE IN FUND BALANCE AS REPORTED IN THE GOVERNMENTAL FUND STATEMENTS	\$	11,070
AMOUNTS REPORTED AS REVENUES IN THE SCHOOL-WIDE STATEMENTS NOT INCLUDED AS REVENUES IN THE GOVERNMENTAL FUND:		
District funding		52,967
AMOUNTS REPORTED AS EXPENDITURES IN THE GOVERNMENTAL FUNDS NOT INCLUDED AS EXPENSES IN THE SCHOOL-WIDE STATEMENTS:		
Capital outlays		231,400
EXPENSES IN THE SCHOOL-WIDE STATEMENTS NOT INCLUDED IN THE GOVERNMENTAL FUND:		
Depreciation expense		<u>(18,287)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES	\$	<u><u>277,150</u></u>

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nashville Preparatory Charter School (the School) operates as Nashville Prep. The School was incorporated on August 9, 2010, as a Tennessee nonprofit corporation. Pursuant to the Tennessee Public Charter School Act of 2002 (the "Act"), the School has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state's public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education. The School entered into a Charter School Agreement with the Metropolitan Board of Public Education of Nashville and Davidson County ("MNPS") on November 23, 2010, to operate a charter school in Nashville, Tennessee. The School began classes in August 2011 with fifth grade classes and added sixth grade classes for the 2012-2013 school year. The School intends to add additional grade levels through twelfth grade during each of the upcoming school years.

Pursuant to the School's charter agreement, enrollment in the School is open to any student within Davidson County, Tennessee. The Charter School Agreement currently allows 116 students per grade.

Basis of Accounting - The School's financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989 (when applicable), that do not conflict with or contradict the guidance of the GASB pronouncements.

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

Basic Financial Statements - The School's basic financial statements include both school-wide (reporting the school-wide as a whole) and fund financial statements (reporting the School's major funds). The School's primary activities are all considered to be governmental activities and are classified as such in the school-wide and fund financial statements. The school-wide financial statements of the School have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting. Revenues under the modified accrual basis are recognized when measurable and available and expenditures are recognized when the related liability is incurred. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due.

School-wide Financial Statements - The school-wide financial statements focus on the sustainability of the School as an entity and the change in the School's net position resulting from the current year's activities.

In the school-wide statement of net position, activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The statement of net position presents the financial condition of the School at year-end.

GASB 34 requires the classification of net position into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by outstanding balances, if any, of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. When both restricted and unrestricted assets are available for use, it is the School's policy to utilize restricted assets first, then unrestricted assets as needed.

The school-wide statement of activities reports both the gross and net cost of the School's functions. The functions are also supported by general government revenues (general revenues are primarily made up of district Basic Education Program (BEP) funding and contributions to the general fund). The statement of activities reduces gross expenses by related function revenues, operating and capital grants. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue. The School allocated indirect costs between functions.

Fund Financial Statements - The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures.

The emphasis on fund financial statements is on the major funds. Nonmajor funds by category, if any, are summarized in a single column. GASB 34 sets forth minimum criteria for the determination of major funds. The School's only major fund is the General Fund, which is also the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund. All of the School's financial resources were accounted for in the General Fund as of June 30, 2013.

The governmental fund's focus is upon the determination of financial resources, their balances, sources and uses, rather than upon net income. The School has implemented Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions ("GASB 54"). GASB 54 classifies governmental fund balances as: nonspendable, restricted, committed, assigned or unassigned based on the level of constraints on the fund balances. When an expenditure is incurred in which both restricted and unrestricted funds are available for use, it is the School's policy to spend restricted funds first, then unrestricted funds. When expenditures have been incurred for purposes in which multiple categories of unrestricted funds are available, it is the School's policy to spend funds in the following order, committed, then assigned, and lastly unassigned funds. The classifications of fund balances are defined as follows:

Nonspendable – This classification consists of fund balances that cannot be spent because they are either not in spendable form, for example, noncash amounts that are not expected to be converted to cash, or the funds are legally or contractually required to be maintained intact.

Restricted – This classification consists of fund balances with external constraints on use imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Committed – This classification consists of fund balances that can only be used for specific purposes established by formal action of the School’s Board of Directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts.

Assigned – This classification consists of all fund balances that are not in the general fund or classified as nonspendable, restricted or committed. In addition, general fund balances that the School intends to use for specific purposes are also classified as assigned. The School gives the authority to assign amounts to specific purposes to the School’s executive director and personnel, under supervision of the executive director, tasked with financial recording responsibilities.

Unassigned – This classification consists of all fund balances in the general fund that are not reported as nonspendable, restricted, committed or assigned.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Management’s Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that such estimates have been based on reasonable assumptions and are appropriate. Actual results could differ from those estimates.

Functional Allocation of Expenses – The costs of providing various programs and other services have been reported on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the student instruction and services, food services, student transportation, and administration.

Cash and Cash Equivalents - The School considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents. As of June 30, 2013, the School’s cash and cash equivalents were deposited in one financial institution. The School routinely maintains deposit balances in excess of federally insured limits. The uninsured balance at June 30, 2013 totaled \$254,880.

Receivables - Receivables represent amounts due from grants or funding which have been approved but not received. All receivables are reported at estimated collectible amounts. The allowance for uncollectible accounts was zero at June 30, 2013.

Capital Assets - Property and equipment are recorded at acquisition cost, if purchased, or the fair value on the date received, if donated, less accumulated depreciation. The cost of routine maintenance and repairs is expensed as incurred. Expenditures which materially extend the economic lives, change capacities or improve the efficiency of the related assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting

gain or loss, if any, is included in the statement of activities. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The School follows the practice of capitalizing all expenditures for property and equipment items over \$500.

Estimated useful lives of capital assets are as follows:

Furniture	7 years
Computer equipment	5 years
Office equipment	5 years

Grants - The School received federal financial assistance through state agencies. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School as of June 30, 2013.

Income Taxes – The School qualifies as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. In addition, the School qualifies for the charitable contribution deduction under Section 170(b) (1) (A) (ii) and has been classified as an organization that is not a private foundation under Section 509(a) (2).

Accounting principles generally accepted in the United States of America require management to evaluate the tax positions taken by the School and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed the tax positions taken by the School, and has concluded that as of June 30, 2013, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The School's federal information and income tax returns for all tax years are subject to examination by the IRS as the year ended June 30, 2011 was the School's first year of existence.

Budgetary Comparison Statement - The School is not required to adopt a legally binding budget; therefore no budgetary comparison statement of the General Fund has been presented.

Review of Subsequent Events - The School performed a review of subsequent events through December 27, 2013, the date the financial statements were available to be issued, and concluded that no events or transactions occurred during that period requiring recognition or disclosure.

3. **CAPITAL ASSETS**

Capital assets activity for governmental activities for the year ended June 30, 2013 was as follows:

	June 30, 2012	Additions	Disposals	June 30, 2013
Furniture	\$ 8,680	\$ -	\$ -	\$ 8,680
Computer equipment	63,884	105,336	-	169,220
Office equipment	8,056	-	-	8,056
Construction in progress	-	126,064	-	126,064
	80,620	231,400	-	312,020
Accumulated depreciation	(9,860)	(18,287)	-	(28,147)
	<u>\$ 70,760</u>	<u>\$ 213,113</u>	<u>\$ -</u>	<u>\$ 283,873</u>

Depreciation expense was charged to governmental activities for the year ended June 30, 2013 as follows:

Student instruction and services	\$ 14,326
Administration	<u>3,961</u>
Total	<u>\$ 18,287</u>

4. LINE OF CREDIT

The School has a line of credit with a bank in the amount of \$150,000. The loan bears interest at the bank's prime rate (3.25% at June 30, 2013), but not less than 5.0%, is secured by substantially all assets, and matured in September 2013. The line of credit was increased to \$200,000 in September 2013, extending maturity to September 2014. There were no outstanding borrowings on the line of credit during 2013 or at June 30, 2013.

In June 2013, the School obtained a construction line of credit in the amount of \$400,000. The loan bears interest at 6.0% and is secured by substantially all assets, and matures in June 2018. There were no outstanding borrowings on the construction line of credit during 2013 or at June 30, 2013.

5. LEASES

The facilities used to provide educational services were provided under a current operating lease arrangement with Tennessee State University. The lease terminated July 31, 2013. Under the terms of the lease, the School paid rent expense of \$179,371 for the year ended June 30, 2013.

The School also leases copier equipment under operating leases that expire during the year ending June 30, 2016.

In June 2013, the School entered into a lease agreement for a facility with Metro Nashville Public Schools. The lease was effective July 1, 2013 and expires June 30, 2023. At June 30, 2013, the School had control of the facility to begin necessary improvements for the 2013-2014 school year. Pursuant to the lease agreement with Metro Nashville Public Schools, the initial monthly rent is \$11,123, and subject to annual rent increases of 2%. The School is entitled to a fifty-percent (50%) credit against the payment of rent in an amount equal to the School's improvement expenditures. Credits are applied monthly after the expenditures for improvements are incurred, and will cease when the cumulative total credits applied equals the amount of School improvement expenditures.

Total rent expense for all leases for the year ended June 30, 2013 totaled \$231,521.

A summary of future minimum rental payments required under the non-cancellable operating leases is as follows:

2014	\$ 98,427
2015	91,841
2016	142,220
2017	141,645
2018	144,478
Thereafter	<u>766,905</u>
	<u>\$ 1,385,516</u>

6. RETIREMENT PLANS

Teacher Plan Description - The School contributes to the State Employees, Teachers, and Higher Education Employees' Pension Plan ("SETHEEPP"), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits to plan participants and their beneficiaries. Benefits are determined by a formula using the participant's high five-year average salary and years of service. Participants become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested participants who are at least 55 years of age or have 25 years of service. Disability benefits are available to active participants with five years of service and who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the participant was in the performance of duty. Participants joining the plan on or after July 1, 1979, are vested after five years of service. Participants joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statutes found in Title 8, Chapters 34 – 37 of the Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Cost of living adjustments ("COLA") are provided to retirees each July based on the percentage change in the Consumer Price Index ("CPI") during the previous calendar year. No COLA is granted if CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.treasury.tn.gov/tcrs/>.

Funding Policy - Teacher participants are required to contribute 5% of their salary to the SETHEEPP. The employer contribution rate is based on the rate for Davidson County Schools which is established at an actuarially determined rate. The employer rate for the year ended June 30, 2013, was 8.88% of annual covered payroll.

Non-Teacher Plan Description - The School contributes to the Metropolitan Government of Nashville and Davidson County's Division B pension plan ("Metro Plan"), a defined benefit single-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. Benefits are determined by a formula using the participant's high five-year average salary and years of service. Participants become eligible to retire at the age of 60 once their age plus the completed years of service equal 85 or at age 65 with five years of service. A reduced retirement benefit is available to vested participants prior to the age of 60 or with less than an age plus years of service sum of 85. Reduced benefits are determined by reducing full benefits by 4% per year for each of the first five years by which the retirement date precedes the normal retirement age, and by 8% for each additional year beyond the first five years with a maximum reduction of 60%. Participants are vested after five years of service.

No separate financial reports are issued for the Metro Plan. The Metro Plan financial and required supplemental information is included in the Metropolitan Government of Nashville and Davidson County Comprehensive Annual Financial Report. That report may be obtained by writing to the Tennessee Department of Finance, Division of Accounts, 1 Public Square, Suite 106, Nashville, TN 37201 or can be accessed at <http://www.nashville.gov/Finance.aspx>.

Funding Policy - The Metro Plan requires no participant contribution. The employer contribution is established at an actuarially determined rate. The employer rate for the year ended June 30, 2013 was 15.938% of annual covered payroll.

The School's contributions for both teachers and non-teachers are nonrefundable to either the School or its employees. The School's expense, related to both plans for the year ended June 30, 2013 totaled \$88,994, and \$42,023 for the period August 9, 2010 to June 30, 2012.

7. CONCENTRATIONS

The School received gross funding of \$1,869,993, which is approximately 79% of its funding, for the year ended June 30, 2013 from MNPS based on the State of Tennessee's Basic Education Program (BEP). BEP funding is designated to Schools based on student attendance.

The School received gross funding of \$343,302 from federal agencies as a subrecipient, which is approximately 15% of its total funding for the period ended June 30, 2013.

Three donors comprised approximately 84% of the School's total contributions (6% of total revenues) for the year ended June 30, 2013.

8. RELATED PARTY TRANSACTIONS

The School paid \$20,000 to Teach for America, Inc. (TFA), for teacher placements costs during the year ended June 30, 2013. A board member is employed by TFA.

9. COMMITMENT

In June 2013, the School entered into a construction contract for approximately \$357,000 for leasehold improvements for its facility lease with Metro Nashville Public School (see note 5). Construction costs will be funded through contributions and a long-term note payable of \$400,000 (see note 4).

10. FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Items previously reported as assets and liabilities;
- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

The School is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

SUPPLEMENTARY INFORMATION

NASHVILLE PREPARATORY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2013

Federal Grantor/ Pass-through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>FEDERAL AWARDS</u>						
<u>U.S. Department of Agriculture</u>						
School Breakfast Program	10.553	N/A	\$ (1,681)	\$ 27,118	\$ 28,799	\$ -
National School Lunch Program	10.555	N/A	(5,275)	66,332	71,607	-
National School Afterschool Snacks Program	10.555	N/A	(1,435)	19,760	21,195	-
TOTAL PROGRAM 10.555			(6,710)	86,092	92,802	-
<u>U.S. Department of Education</u>						
<u>Passed through Tennessee Department of Education, Passed through Metro Nashville Public Schools</u>						
Public Charter Schools Program	84.282	N/A	-	125,000	125,000	-
Special Education Grants to States	84.027	N/A	-	49,445	49,445	-
Title 1 Grants to Local Educational Agencies	84.010	N/A	(9,757)	49,528	59,285	-
TOTAL FEDERAL AWARDS			(18,148)	337,183	355,331	-
<u>STATE FINANCIAL ASSISTANCE</u>						
NONE	N/A	N/A	-	-	-	-
TOTAL STATE FINANCIAL ASSISTANCE			-	-	-	-
TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			\$ (18,148)	\$ 337,183	\$ 355,331	\$ -

NASHVILLE PREPARATORY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2013

Note - Basis of Presentation

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the grant activity of Nashville Preparatory Charter School, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State of Tennessee Comptroller of the Treasury's *Audit Manual*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

To the Board of Directors
Nashville Preparatory Charter School
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Nashville Preparatory Charter School, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Nashville Preparatory Charter School's basic financial statements, and have issued our report thereon dated December 27, 2013.

Internal Control over Financial Reporting

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

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

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

accompanying schedule of findings and responses that we consider to be a significant deficiency as item 2013-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nashville Preparatory Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2013-001.

Nashville Preparatory Charter School's Response to Findings

Nashville Preparatory Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Nashville Preparatory Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Car. Riggs & Ingram

Nashville, Tennessee
December 27, 2013

NASHVILLE PREPARATORY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED JUNE 30, 2013

FINDING 2013-001

Condition: During testing of the School's federal free and reduced meal programs, there were instances detected in which the number of meals claimed for reimbursement for January 2013 and May 2013 exceeded the actual number of meals served. The months chosen for testing were September 2012, January 2013, and May 2013. In September 2012, there were 18 days in which breakfast and lunch were served, and 14 days in which snacks were served. Four dates were chosen for testing in September 2012 and no noncompliance was detected. In January 2013, there were 18 days in which breakfast and lunch were served, and 15 days in which snacks were served. Four dates were chosen for testing in January, and that testing detected that 93 breakfast meals were reported in excess of actual meals served, 57 lunch meals were reported in excess of actual meals served, and 116 snacks were reported in excess of actual snacks served. In May 2013, there were 20 days in which breakfast and lunch were served, and 16 days in which snacks were served. Four dates were chosen for testing in May, and that testing detected that 66 snacks were reported in excess of snacks served.

Criteria: Meals claimed for reimbursement under free and reduced meal programs should be based on the actual number of meals served.

Cause of Condition: Meals claimed for reimbursement under free and reduced meal programs were based on actual attendance records in classrooms rather than actual meals served in each classroom.

Potential Effects of Condition: Excess meals reimbursements may have to be repaid to the administering agency.

Recommendation: Provide instruction the School's teachers to properly track the number of actual meals served to students. Actual meal counts, rather than classroom attendance, should be turned into School administration for reporting eligible meals for reimbursement.

Views of Responsible Officials: Nashville Prep has trained staff to serve meals to all students that order a meal and record actual meal counts for reimbursement. Using January data to approximate excess claims for the entire year, Nashville Prep estimates that total reimbursements for the 2012-2013 school year were about approximately \$3,600 in excess of meals served.

NASHVILLE PREPARATORY CHARTER SCHOOL

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS YEAR ENDED JUNE 30, 2013

FINDING 2012-001

Condition: Adequate documentation could not be located for four of the grant disbursements in the sample of 25; therefore the nature of those transactions could not be verified.

Recommendation: All supporting documentation for grant transactions should be maintained for five full years.

Current Status: The questioned costs all occurred under a former employee of Nashville Prep. Nashville Prep's financial policies and procedures require that we maintain supporting evidence for all costs, and our current staff has been trained on this policy.

FINDING 2012-002

Condition: Documentation supporting the search of the suspended and debarred list for a potential vendor was not maintained. As a result it could not be determined if the School had searched the list to verify that the vendor was not an excluded party.

Recommendation: Research all vendors and subrecipients receiving more than \$25,000 in grant funds, directly or indirectly, to insure they are not an excluded party. Retain documentation of the search.

Current Status: Nashville Prep complied with the recommendation. We have updated the shared calendar to provide an annual reminder to check our vendors against the list, and we have trained our staff to check all new vendors against the list.

FINDING 2012-003

Condition: While gaining an understanding of the school's internal control system, it was determined that the School's policy does not require all funds to be deposited within three business days, and that some deposits were made after three business days.

Recommendation: Deposit all funds within three business days of receipt.

Current Status: Nashville Prep complied with the recommendation. We have trained our staff to ensure that all deposits are made within three business days of receipt.

FINDING 2012-004

Condition: While gaining an understanding of the School's internal control system, it was determined that the School does not require dual signatures on all checks, only checks over \$5,000.

Recommendation: The School should require dual signatures on all checks.

Current Status: Nashville Prep has amended its check signing policy to require two signatures on all checks.