



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

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Retired

James C. Nagel, CPA
Retired

**LIBERTY COLLEGIATE ACADEMY
INDEPENDENT AUDITORS' REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

LIBERTY COLLEGIATE ACADEMY

INTRODUCTORY SECTION

JUNE 30, 2013

**LIBERTY COLLEGIATE ACADEMY
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JUNE 30, 2013**

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LIBERTY COLLEGIATE ACADEMY

FINANCIAL SECTION

JUNE 30, 2013



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Liberty Collegiate Academy
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of Liberty Collegiate Academy (Academy), as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy'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.

Auditor's 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 auditor's 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.

INDEPENDENT AUDITORS' REPORT

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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 major fund of Liberty Collegiate Academy as of June 30, 2013, and the respective changes in financial position for the fiscal 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 on pages 5 through 8 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 Liberty Collegiate Academy's basic financial statements. The introductory section, and other supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other 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 basic financial statements. Such 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

INDEPENDENT AUDITORS' REPORT

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2013, on our consideration of the Liberty Collegiate Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Liberty Collegiate Academy's internal control over financial reporting and compliance.

Hosaka, Rotherham & Company

San Diego, California

November 14, 2013

**LIBERTY COLLEGIATE ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

As management of the Liberty Collegiate Academy (Academy), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the Academy's basic financial statements, which begin immediately following this analysis. This annual financial report consists of two main parts (1) Management's Discussion and Analysis and, (2) Basic Financial Statements.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB No. 34 established financial reporting standards for state and local governments, including cities, villages and special purpose governments.

FINANCIAL HIGHLIGHTS

- The Academy's ending total net position balance was \$619,149.
- The change in net position for the year was an increase of \$114,796.
- The Academy had an excess of revenue over expenditures in the General Fund in the amount of \$40,296 in the current year compared to \$267,948 in the previous year.
- The Academy had \$97,382 in additions to capital assets.
- For the fiscal year ended June 30, 2013, total revenues of \$2,289,006 were comprised of federal pass-through funds – 18%, Academy funds – 81%, and Charitable Giving/Other – 1%.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's audit report is comprised of four components: 1) financial statements and notes, 2) supplementary information, 3) reports on compliance and internal control, and 4) findings and recommendations.

Basic financial statements. The basic financial statements include government-wide financial statements and fund statements. The two sets of statements are tied together by Reconciliations showing why they differ.

The Academy as a whole is reported in the government-wide statements and uses accounting methods similar to those used by companies in the private sector.

More detailed information about the Academy's most significant funds – not the Academy as a whole is provided in the fund financial statements. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

The *Statement of Net Position*, a government-wide statement, presents information on all of the Academy's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

**LIBERTY COLLEGIATE ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

The *Statement of Activities*, a government-wide statement, presents information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Balance Sheet* for governmental funds presents financial information by fund types showing money left at year-end available for spending.

The *Statement of Revenues, Expenditures and Changes in Fund Balances* for all governmental fund types focuses on how money flows into and out of the various funds.

The *Notes to the Basic Financial Statements* are included to provide more detailed data and explain some of the information in the statements.

The *Supplementary Information* gives an overview of the operations of the Academy and the governing body and outlines assessed property valuation.

Reports on Compliance and Internal Control encompass the independent auditor's reports showing compliance with Government Auditing Standards and provides additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *Findings and Recommendations* section notes material weaknesses in the system and recommendations.

Statement of Net Position

To begin our analysis, a summary of the Academy's Statement of Net Position is presented in Table 1 below for the current year and the prior year.

Net position may serve over time, as a useful indicator of a government's financial position. In the case of the Academy, assets exceeded liabilities by \$619,149 as of June 30, 2013.

The Academy's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

TABLE 1
Condensed Statement of Net Position

	June 30, 2013	June 30, 2012	\$ Change	% Change
Current and other assets	\$ 590,263	\$ 495,669	\$ 94,594	19.1%
Capital assets, net of depreciation	142,486	77,912	64,574	82.9%
Total assets	<u>732,749</u>	<u>573,581</u>	<u>159,168</u>	27.7%
Current liabilities	94,430	40,132	54,298	135.3%
General long-term debt	19,170	29,096	(9,926)	-34.1%
Total liabilities	<u>113,600</u>	<u>69,228</u>	<u>44,372</u>	64.1%

**LIBERTY COLLEGIATE ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

TABLE 1
Condensed Statement of Net Position (Continued)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Net position:				
Net investment in capital assets	123,316	48,816	74,500	152.6%
Unrestricted	495,833	455,537	40,296	8.8%
Total net position	<u>\$ 619,149</u>	<u>\$ 504,353</u>	<u>\$ 114,796</u>	22.8%

Statement of Activities

- The Academy's total revenues for the fiscal year ended June 30, 2013, increased by \$823,722.
- The Academy's total expenses increased by \$976,874.
- The change in net position was a decrease of \$153,152.

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2013:

TABLE 2
Condensed Statement of Activities

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Program revenues:				
Charges for Services	\$ 137,738	\$ -	\$ 137,738	100.0%
Operating Grants and Contributions	274,379	564,582	(290,203)	-51.4%
General revenues:				
Revenue limit sources	1,846,586	876,553	970,033	110.7%
Contributions	21,197	19,035	2,162	11.4%
Local revenue	9,106	5,114	3,992	78.1%
Total revenue	2,289,006	1,465,284	823,722	56.2%
Functional expenses:				
Instruction	1,129,471	665,047	464,424	69.8%
Instruction-related services	57,071	68,283	(11,212)	-16.4%
Pupil services	272,208	166,937	105,271	63.1%
General administration	389,874	117,847	272,027	230.8%
Plant services	325,586	179,222	146,364	81.7%
Total expenses	<u>2,174,210</u>	<u>1,197,336</u>	<u>976,874</u>	81.6%
Change in net position	<u>\$ 114,796</u>	<u>\$ 267,948</u>	<u>\$ (153,152)</u>	-57.2%

**LIBERTY COLLEGIATE ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Capital Assets

During the 2012-2013 school year the Academy acquired \$97,382 additions in capital assets.

TABLE 3
Changes in Capital Assets

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Furniture and fixtures	\$ 33,569	\$ 5,071	28,498	562.0%
Office equipment	82,537	71,297	11,240	15.8%
Computer equipment	78,146	20,502	57,644	281.2%
Less: accumulated depreciation	(51,766)	(18,958)	(32,808)	173.1%
Total capital assets, net of depreciation	<u>\$ 142,486</u>	<u>\$ 77,912</u>	<u>\$ 64,574</u>	82.9%

Long-Term Debt

During the 2012-2013 school year the Academy did not acquire any additional long-term debt.

TABLE 4
Changes in Long-Term Debt

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Capital lease	\$ 19,170	\$ 29,096	\$ (9,926)	-34.1%
Total long-term debt	<u>\$ 19,170</u>	<u>\$ 29,096</u>	<u>\$ (9,926)</u>	-34.1%

FACTORS BEARING ON THE ACADEMY'S FUTURE

The Academy's outlook for future years is tied to growth. Enrollment has steadily increased since the school's inception in 2011-2012, due to both increased popularity, class size, and the addition of a grade each year. Per pupil funding, which makes up a majority of available funds, has steadily increased as well. The future of the organization looks bright, and cost/expenditures continue to scale appropriately.

CONTACTING THE ACADEMY

Questions regarding this report should be directed to Abigail Rockey, Director of Operations at (615) 564-1973, or by mail at 3515 Gallatin Pike Nashville, TN 37216.

This financial report is designed to provide our students' parents, Davidson County taxpayers, donors, creditors, authorities over grant funding and agencies tasked with oversight of Nashville and Davidson County public schools with a general overview of the school's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional financial information, contact the school's Director of Operations, Abigail Rockey, at 3515 Gallatin Pike Nashville, TN 37216, by email: arockey@libertycollegiateacademy.org, or by telephone at (615) 564-1973.

Liberty Collegiate Academy

**LIBERTY COLLEGIATE ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities
ASSETS:	
Cash on hand and in banks	\$ 489,796
Accounts receivable	93,716
Prepaid expenditures	6,751
Capital assets:	
Furniture and fixtures	33,569
Office equipment	82,537
Computer equipment	78,146
Less: accumulated depreciation	(51,766)
Total assets	732,749
LIABILITIES:	
Accounts payable	44,835
Accrued liabilities	49,595
Noncurrent liabilities:	
Due within one year	9,926
Due in more than one year	9,244
Total liabilities	113,600
NET POSITION:	
Net investment in capital assets	123,316
Unrestricted	495,833
Total net position	\$ 619,149

The accompanying notes are an integral part of this statement.

**LIBERTY COLLEGIATE ACADEMY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues		Net (Expense), Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Government Activities:				
Instruction	\$ 1,129,471	\$ -	\$ 274,379	\$ (855,092)
Instruction-related services	57,071	-	-	(57,071)
Pupil services	272,208	137,738	-	(134,470)
General administration	389,874	-	-	(389,874)
Plant services	325,586	-	-	(325,586)
Total governmental activities	<u>\$ 2,174,210</u>	<u>\$ 137,738</u>	<u>\$ 274,379</u>	<u>(1,762,093)</u>
General revenues:				
				1,846,586
				21,197
				9,106
				<u>1,876,889</u>
				114,796
				504,353
				<u>\$ 619,149</u>

The accompanying notes are an integral part of this statement.

**LIBERTY COLLEGIATE ACADEMY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>
ASSETS:	
Cash on hand and in banks	\$ 489,796
Accounts receivable	93,716
Prepaid expenditures	6,751
Total assets	<u>\$ 590,263</u>
LIABILITIES AND FUND BALANCE:	
Liabilities:	
Accounts payable	\$ 44,835
Accrued liabilities	49,595
Total liabilities	<u>94,430</u>
Fund balance:	
Nonspendable:	
Prepaid expenditures	6,751
Unassigned/unappropriated:	
Unassigned/unappropriated amount	489,082
Total fund balance	<u>495,833</u>
Total liabilities and fund balances	<u>\$ 590,263</u>

The accompanying notes are an integral part of this statement.

**LIBERTY COLLEGIATE ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total fund balances - governmental fund balance sheet	\$ 495,833
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	142,486
Payable for capital lease payable which is not due in the current period is not reported in the funds.	<u>(19,170)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 619,149</u>

The accompanying notes are an integral part of this statement.

**LIBERTY COLLEGIATE ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General Fund
Revenues:	
District Funding	\$ 1,846,586
Federal revenue	412,117
Contributions	21,197
Other local revenue	9,106
Total revenues	2,289,006
Expenditures	
Instruction	1,129,471
Instruction - Related services	57,071
Pupil services	272,208
General administration	399,800
Plant services	390,160
Total expenditures	2,248,710
Net change in fund balance	40,296
Fund balance, July 1	446,418
Prior period adjustment	9,119
Fund balance, June 30	\$ 495,833

The accompanying notes are an integral part of this statement.

**LIBERTY COLLEGIATE ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Net change in fund balances - total governmental funds	\$	40,296
Amounts reported for governmental activities in the statement of activities (SOA) are different because:		
Capital outlays are not reported as expenses in the SOA.		97,382
The depreciation of capital assets used in governmental activities is not reported in the funds.		(32,808)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.		<u>9,926</u>
Change in net position of governmental activities - Statement of Activities	\$	<u><u>114,796</u></u>

The accompanying notes are an integral part of this statement.

**LIBERTY COLLEGIATE ACADEMY
STATEMENT OF FIDUCIARY
NET POSITION - FIDUCIARY FUND
JUNE 30, 2013**

	Agency Fund
	Student Body Fund
	Student Body Fund
ASSETS:	
Cash on hand and in banks	\$ 6,701
Total assets	6,701
LIABILITIES:	
Due to student groups	\$ 6,701
Total liabilities	6,701
NET POSITION:	
Total net position	\$ -

The accompanying notes are an integral part of this statement.

**LIBERTY COLLEGIATE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies

1. Organization

Liberty Collegiate Academy (Academy) was incorporated during 2010 as a Tennessee nonprofit corporation. Pursuant to Section 6(1)(a) of the Tennessee Public Charter School Act of 2002 (the "Act"), the Academy 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 Academy entered into a Charter School Agreement with the Metropolitan Nashville Board of Education during 2011 to operate a charter school in Nashville, Tennessee. The School began classes in August 2011 with fifth grade classes and added a sixth grade in the 2012-2013 fiscal year. Per the Academy's charter agreement, enrollment in the Academy is open to any student within the Metropolitan Nashville Public School System (MNPS) who resides in Davidson County.

2. Accounting Policies

The accounting policies of the Academy conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

3. Reporting Entity

The Academy's combined financial statements include the accounts of all its operations. The Academy evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the Academy's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units", include whether:

- the organization is legally separate (can sue and be sued in its name)
- the Academy holds the corporate powers of the organization
- the Academy appoints a voting majority of the organization's board
- the Academy is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Academy
- there is fiscal dependency by the organization on the Academy
- it would be misleading or cause the financial statements to be incomplete to exclude another organization

Based on these criteria, the Academy has no component units. Additionally, the Academy is not a component unit of any other reporting entity as defined by the GASB statement.

4. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-Wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

**LIBERTY COLLEGIATE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies (Continued)

These statements distinguish between the governmental and business-type activities of the Academy. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-Type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Academy's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Academy does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The Fund Financial Statements provide information about the Academy's fund, with separate statements presented for each fund category. The emphasis of fund financial statements is on major government funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The Academy reports the following major governmental funds:

General Fund. This is the Academy's primary operating fund. It accounts for all financial resources of the Academy not accounted for and reported in another fund.

Non-Major Governmental Funds:

The Academy does not have any non-major governmental funds.

In addition, the Academy reports the following fund types:

Fiduciary Funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support Academy programs, these funds are not included in the government-wide statements. The fiduciary fund category is agency funds.

Agency Funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. The Academy's agency fund accounts for student body activities (ASB).

b. Measurement Focus, Basis of Accounting

Government-Wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

**LIBERTY COLLEGIATE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies (Continued)

Nonexchange transactions, in which the Academy gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Government Fund Financial Statements: Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Academy does not consider revenues collected after its fiscal year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Propriety Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The Academy has chosen to apply future FASB standards.

5. Assets, Liabilities, and Equity

a. Deposits and Investments

The Academy 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 Academy's cash was deposited in one financial institution.

b. Accounts Receivable

Receivables represent amounts due from grants or funding which have been approved but not received. All receivables are reported at estimated collectible amounts.

c. Use of Estimates

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

LIBERTY COLLEGIATE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

A. Significant Accounting Policies (Continued)

d. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. Inventories of the General Fund are immaterial and have been omitted from these statements.

The Academy has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefitting period. The Academy has chosen to report the expenditure during the benefitting period.

e. Capital Assets

Property and equipment are recorded at acquisition cost less accumulated depreciation, if purchased, or the fair value on the date received, if donated. 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, ranging from three to seven years, or over the term of the lease for leasehold improvements, if less. The Academy follows the practice of capitalizing all expenditures for property and equipment items over \$1,000.

f. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

g. In-Kind Contributions

The Academy recognizes various types of in-kind contributions received in the course of daily operations, including professional services, supplies and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible assets are capitalized at fair value when received.

h. Grant Revenue

The Academy received Federal financial assistance through state agencies. The expenditure of funds received under these programs generally required compliance with terms and conditions specified in the grant agreements and is 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 Academy as of June 30, 2013.

**LIBERTY COLLEGIATE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies (Continued)

i. Income Taxes

The Academy is exempt from income taxes under Internal Revenue Code Section (IRC §) 501(c)(3). It is, however, subject to income taxes from activities unrelated to its tax-exempt purpose. The Academy uses the same accounting methods for tax and financial reporting.

Generally accepted accounting principles (GAAP) provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Academy's returns are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

j. Fund Balance Reserves and Designations

The Academy has adopted GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement defines the different types of fund balances that a governmental entity must use for financial purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balances categories listed below:

- *Nonspendable*, such as fund balance associated with revolving funds, inventories, prepaids, long-term loans and notes receivable, and property held for resale.
- *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* fund balance classification includes amounts that can be used for the specific purposes determined by a formal action of the Board of Directors.
- *Assigned* fund balance classification are intended to be used by the entity for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned* fund balance is the residual classification for the entity's general fund and includes all spendable amounts not contained in the other classification.

When the Academy incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Academy's policy to use restricted resources first, then unrestricted resources.

When the Academy incurs an expenditure or expense for which committed, assigned, or unassigned amounts may be used, it is the Academy's policy that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

k. Minimum Fund Balance Policy

The Academy is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures.

**LIBERTY COLLEGIATE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

A. Significant Accounting Policies (Continued)

I. Functional Allocation of Expenses

The costs of providing the program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services based on employees' time incurred and management's estimates of the usage of resources.

m. Budgetary Comparison Statement

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

B. Cash

Cash at June 30, 2013, consisted of the following:

Deposits with financial institutions	\$ 489,796
Total	<u>\$ 489,796</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Academy maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Academy has not experienced any losses in such accounts. At June 30, 2013, the Academy had \$283,169 in excess of FDIC insured limits.

C. Accounts Receivable

Accounts receivable as of June 30, 2013, consist of the following:

	<u>General Fund</u>
Federal Government:	
Federal Programs	\$ 41,418
State Government:	
State Programs	52,298
Total accounts receivable	<u>\$ 93,716</u>

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Beginning 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending 2013</u>
Capital assets, being depreciated:				
Furniture and fixtures	\$ 5,071	\$ 28,498	\$ -	\$ 33,569
Office equipment	71,297	11,240	-	82,537
Computer equipment	20,502	57,644	-	78,146
Total capital assets, being depreciated	<u>96,870</u>	<u>97,382</u>	-	<u>194,252</u>

**LIBERTY COLLEGIATE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

D. Capital Assets (Continued)

	Beginning 2012	Additions	Deletions	Ending 2013
Less accumulated depreciation for:				
Furniture and fixtures	(724)	(2,907)	-	(3,631)
Office equipment	(14,071)	(16,119)	-	(30,190)
Computer equipment	(4,163)	(13,782)	-	(17,945)
Total accumulated depreciation	(18,958)	(32,808)	-	(51,766)
Total capital assets, being depreciated, net	77,912	64,574	-	142,486
Capital assets, net of depreciation	\$ 77,912	\$ 64,574	\$ -	\$ 142,486

During the fiscal year ended June 30, 2013, \$32,808 was charged to depreciation expense.

Governmental activities:

Administration	\$ 32,808
Total depreciation	\$ 32,808

E. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2013, are as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Capital Lease	\$ 29,096	\$ -	\$ (9,926)	\$ 19,170	\$ 9,926
Total Governmental Activities	\$ 29,096	\$ -	\$ (9,926)	\$ 19,170	\$ 9,926

2. Capital Lease

The Academy has entered into a capital lease agreement for two copiers. Lease payments due under the agreement total \$827 per month. The amount capitalized and included in capital assets as of June 30, 2013, was \$37,199 with accumulated depreciation of \$17,825. The lease expires in July 2015. As of June 30, 2013, future minimum lease payments required are as follows:

Year Ending June 30,	Principal
2014	\$ 9,926
2015	9,926
2016	827
Less: amount representing interest	(1,509)
Total minimum future payments	\$ 19,170

**LIBERTY COLLEGIATE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

F. Operating Leases

The Academy has entered into operating leases for office equipment with lease terms in excess of one year. These agreements contain no purchase options. The agreement is a non-cancelable lease. Future minimum lease payments under this agreement are as follow:

Year Ending June 30,	Lease Payments
2014	\$ 31,526
2015	31,526
2016	21,600
2017	21,600
Total future minimum payments	\$ 106,252

The Academy will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. Rent expense for the fiscal year ended June 30, 2013, was \$145,892.

G. Retirement Plan

1. Plan Description

The Academy 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 members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members 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 members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service 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 member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in the state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated ("TCA"). 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 the 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, Tennessee 37243-0230, or the report can be accessed at this website: www.tn.gov/treasury/tcrs/Schools.

2. Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for the Academy is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2013, was 9.05% of annual covered payroll. The employer contribution requirement for the Academy is established and may be amended by the TCRS Board of Trustees. The employer's contribution to TCRS for the fiscal years ending June 30, 2013, and 2012, were \$94,639 and \$43,878, respectively, and equal the required contributions for each fiscal year.

**LIBERTY COLLEGIATE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

H. Commitments and Contingencies

State and Federal Allowances, Awards, and Grants

The Academy has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grant, management believes that any required reimbursement will not be material.

I. Subsequent Events

The Academy's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through November 14, 2013, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

LIBERTY COLLEGIATE ACADEMY
OTHER SUPPLEMENTARY INFORMATION SECTION
JUNE 30, 2013

**LIBERTY COLLEGIATE ACADEMY
LOCAL EDUCATION AGENCY
ORGANIZATION STRUCTURE
JUNE 30, 2013**

Liberty Collegiate Academy (Academy) [#8005] was established in 2011. The Academy is currently operating one school and serves grades 5 through 12. The location of the school is 3515 Gallatin Road, Nashville, TN 37216.

The Board of Directors for the fiscal year ended June 30, 2013, was comprised of the following members:

Governing Board			
Name	Office	Term	Term Expiration
John Baird	Board Chair	4 years	June 30, 2014
Wood Caldwell	Board Co-Chair, Treasurer, Chair Facilities Committee	5 years	June 30, 2015
Erin Gagnon	Co-Chair Resource Development Committee (Communications)	2 years	June 30, 2014
Allyn Gibson	Board Secretary, Chair Student Achievement Committee	5 years	June 30, 2016
Riney Green	Member	5 years	June 30, 2016
LaKishia Harris	Member	2 years	June 30, 2014
Kimetra Hicks	Member	3 years	June 30, 2015
Henderson Hill	Member	2 years	June 30, 2015
Aaron Kaalberg	Member	3 years	June 30, 2015
Waymon Tipton	Chair Finance Committee	3 years	June 30, 2016
Frank Wcislo	Member	3 years	June 30, 2015
Axson West	Co-Chair Resource Development Committee (Fundraising)	2 years	June 30, 2014
Brian Williams	Chair of Governance Committee	6 years	June 30, 2016

Administration	
Name	Position
Linda Lentz	Executive Director
Abigail Rockey	Director of Operations

LIBERTY COLLEGIATE ACADEMY
OTHER INDEPENDENT AUDITORS' REPORTS SECTION
JUNE 30, 2013



Hosaka, Rotherham & Company
Certified Public Accountants

James A. Rotherham, CPA
CEO & Managing Partner

.....
Roy T. Hosaka, CPA
Retired

James C. Nagel, CPA
Retired

**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
Liberty Collegiate Academy
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 Liberty Collegiate Academy (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2013.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting 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.

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

Page 2

Compliance and Other Matters

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

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 Liberty Collegiate Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Liberty Collegiate Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hosaka, Rotherham & Company

San Diego, California
November 14, 2013

LIBERTY COLLEGIATE ACADEMY
FINDINGS AND RECOMMENDATIONS SECTION
JUNE 30, 2013

**LIBERTY COLLEGIATE ACADEMY
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Liberty Collegiate Academy.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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.
3. No instances of noncompliance material to the financial statements of Liberty Collegiate Academy, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. The Academy did not have over \$500,000 in Federal Expenditures. Therefore, a Single Audit was not performed.

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Not applicable -- The Academy did not have over \$500,000 in Federal Expenditures.

**LIBERTY COLLEGIATE ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None	N/A	N/A