Nashville Preparatory Charter School

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2014

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 the major fund of Nashville Preparatory Charter School as of and for the year ended June 30, 2014, 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 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.

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 the major fund of the Nashville Preparatory Charter School, as of June 30, 2014, and the respective changes in financial position 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

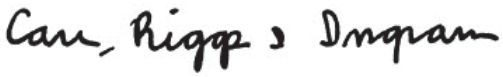
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nashville Preparatory Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of 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. 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. 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 29, 2014, 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 entity's internal control over financial reporting and compliance.



CARR, RIGGS & INGRAM, LLC

Nashville, Tennessee
December 29, 2014

Our discussion and analysis of Nashville Preparatory Charter School's (the "Organization") annual financial performance provides an overview of the Organization's financial activities for the year ended June 30, 2014. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Organization exceeded its liabilities by $911,912.
- Net position increased by $307,072 during the year.
- Outlays for new capital assets totaled $501,289.
- Total revenues of $3,667,266 were comprised of federal pass-through funds (11%), district funds (76%), and charitable contributions (13%) for the year ended June 30, 2014.

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 Organization as a whole and then proceed to a detailed look at its specific financial activities.

REPORTING THE ORGANIZATION 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 the Organization 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 10.

The Statement of Net Position reports the Organization's total assets less total liabilities. The Organization's net position 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 the Organization'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 the Organization.

FUND FINANCIAL STATEMENTS

The Organization'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 12. These statements provide detailed information about the Organization's most significant funds, not the Organization as a whole. Funds are established by the Organization to help manage money for particular purposes and compliance with various grant provisions.

The Organization'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 organization-wide financial statements to report on the Organization 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 13 and 15.

ORGANIZATION-WIDE FINANCIAL ANALYSIS

Net Position

The Organization's assets exceeded the Organization's liabilities at the close of the fiscal year, resulting in a net position of $911,912. The Organization's net position includes $631,061 of cash, all of which is available to meet the Organization's ongoing activities.

As of June 30, 2014, the Organization had invested a total of $656,454 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, renovations to the McCann building and portable facilities for the Organization, and maintenance equipment. The Organization expects additional capital asset investments in the 2014-15 school year, as student enrollment is expected to increase by approximately 215 students, due to opening Nashville Academy of Computer Science ("NACS) with the fifth grade and the addition of an 8th grade at Nashville Prep.

The Organization 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. The Organization also entered into a lease agreement for modular classrooms at Nashville Prep for the 2014-2015 school year.

The Organization had a $200,000 line of credit with Pinnacle Financial Partners during the 2013-14 fiscal year, which was for operations. The Organization also obtained a line of credit of $400,000 to finance construction of improvements at Nashville Prep for the 2013-14 school year.

A schedule of the Organization's net position as of June 30, 2014 and 2013 is as follows:

June 30,		**2014**		2013
Current assets	**$**	**706,986**	$	600,764
Capital assets, net		**656,454**		283,873
TOTAL ASSETS		**1,363,440**		884,637
Current liabilities		**238,220**		279,797
Long-term liabilities		**213,308**		-
TOTAL LIABILITIES		**451,528**		279,797
Net position				
Net investment in capital assets		**403,850**		283,873
Unrestricted		**508,062**		320,967
TOTAL NET POSITION	**$**	**911,912**	$	604,840

Changes in Net Position

The Organization's total net position increased $307,072 during the fiscal year ended June 30, 2014. The increase in net position indicates that the Organization had more incoming revenues than outgoing expenses during the year. Total revenues generated from government grants, governmental funds, and contributions were $3,667,266 during the year ended June 30, 2014. Contributions from individuals and organizations were $464,629 due primarily to support from individual and corporate donors and the identification of new individual donors. These contributions proved to be crucial to the Organization's academic success. Finally, District and state funding during the year totaled $2,780,882.

Total expenses were $3,360,194 during the year ended June 30, 2014. The majority of these expenses are related to Organization's further implementation of the charter organization, employee compensation, instruction, and occupancy.

The change in net position was $307,072. The increases in revenue from contributions, district funding, and federal grants more than offset the Organization's expenses.

A schedule of the Organization's revenues and expenses for the years ended June 30, 2014 and 2013 is as follows:

For the years ended June 30,		**2014**		2013
REVENUES				
Contributions	**$**	**464,629**	$	142,906
District funding		**2,725,882**		1,837,993
Operating grants		**409,722**		343,302
Capital grants		**55,000**		32,000
Charges for services		**12,025**		6,363
Other		**8**		16
TOTAL REVENUES		**3,667,266**		2,362,580
EXPENSES				
Student instruction		**2,137,960**		1,215,647
Food service		**199,841**		121,601
Student transportation		**283,978**		158,675
Administration		**738,415**		589,507
TOTAL EXPENSES		**3,360,194**		2,085,430
CHANGE IN NET POSITION	**$**	**307,072**	$	277,150

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

FINANCIAL ANALYSIS OF THE ORGANIZATION'S FUNDS

The Organization's funds, as presented on the balance sheet on page 12, report a combined fund balance of $508,062. All of the Organization's funds are in the general fund, which is the chief operating fund of the Organization.

Due to the different basis of accounting, there is a difference between the amounts reported under the Organization's funds and the amounts reported as organization-wide. For the year ended June 30, 2014, the differences consist of outlays of capital assets, depreciation expense, and proceeds from and repayments of the Organization's long-term note payable, which are not reported in the Organization's funds.

ORGANIZATION ACTIVITIES

The Organization 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 the Organization, 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, and the school it merged with on July 1, 2014, Liberty Collegiate Academy ("LCA"), exceeded the performance of Metro Nashville Public Schools ("MNPS") and other Nashville area charters in the 2013-2014 school year, as measured by the Tennessee Comprehensive Assessment Program ("TCAP"). Nashville Prep's students scored the highest of any open enrollment public school in Tennessee on the 7th grade TCAP in math. 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 first time, Nashville Prep also ranked in the top 5% in the state in absolute performance. In 2013, Stanford's CREDO study ranked Nashville Prep and LCA the top two performing charter schools in Tennessee.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Enrollment: Enrollment for the year ending June 30, 2015 is projected to be 405 at Nashville Prep, an increase of 115 students to account for adding 8th grade classes. State and federal revenues are budgeted at approximately $4.36 million. For 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 $4.52 million, producing an estimated budgeted operating deficit of approximately $160,000.

CONTACTING THE ORGANIZATION'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 Organization's fiscal activities.

If you have questions about this report or need additional financial information, contact RePublic School's chief financial officer, Glenn Turtel, by telephone at (615) 921-8440 or by email at gturtel@republiccharterschools.org.

Nashville Preparatory Charter School
Statement of Net Position

June 30,		2014
		GOVERNMENTAL ACTIVITIES
ASSETS		
Cash	$	631,061
Receivables		48,548
Prepaid expenses		22,177
Other assets		5,200
Capital assets, net		656,454
TOTAL ASSETS	$	1,363,440
LIABILITIES		
Accounts payable	$	63,667
Accrued expenses		135,257
Long-term liabilities:		
Due within one year		39,296
Due in more than one year		213,308
TOTAL LIABILITIES		451,528
NET POSITION		
Net investment in capital assets		403,850
Unrestricted		508,062
TOTAL NET POSITION		911,912
TOTAL LIABILITIES AND NET POSITION	$	1,363,440

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

Nashville Preparatory Charter School
Statement of Activities

For the year ended June 30, **2014**

SCHOOL ACTIVITIES:	TOTAL	FUNCTIONS: STUDENT INSTRUCTION	FOOD SERVICES	STUDENT TRANSPORTATION	ADMINISTRATION
EXPENSES					
Salaries, wages, and benefits	$ 1,831,438	$ 1,594,695	$ -	$ -	$ 236,743
Food service	199,841	-	199,841	-	-
Instructional	237,366	237,366	-	-	-
Rent and occupancy	158,833	138,820	-	-	20,013
Office	158,330	-	-	-	158,330
Organizational development	66,894	-	-	-	66,894
Other	52,412	-	-	-	52,412
Professional services and fees	181,492	-	-	-	181,492
Staff development	46,644	46,644	-	-	-
Transportation	283,978	-	-	283,978	-
Depreciation	128,708	120,435	-	-	8,273
Interest	14,258	-	-	-	14,258
TOTAL EXPENSES	3,360,194	2,137,960	199,841	283,978	738,415
PROGRAM REVENUES					
Charges for services	12,025	-	12,025	-	-
Operating grants	409,722	239,177	170,545	-	-
Capital grants	55,000	55,000	-	-	-
NET PROGRAM EXPENSES	2,883,447	1,843,783	17,271	283,978	738,415
GENERAL REVENUES					
District funding	2,725,882				
Contributions	464,629				
Other	8				
TOTAL GENERAL REVENUES	3,190,519				
CHANGE IN NET POSITION	307,072				
NET POSITION, BEGINNING OF YEAR	604,840				
NET POSITION, END OF YEAR	$ 911,912				

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

Nashville Preparatory Charter School
Balance Sheet – Government Fund

June 30,		2014
		GENERAL FUND
ASSETS		
Cash	$	631,061
Receivables		48,548
Prepaid expenses		22,177
Other assets		5,200
TOTAL ASSETS	$	706,986
LIABILITIES		
Accounts payable	$	63,667
Accrued expenses		135,257
TOTAL LIABILITIES		198,924
FUND BALANCES		
Nonspendable		22,177
Unassigned		485,885
TOTAL FUND BALANCES		508,062
TOTAL LIABILITIES AND FUND BALANCES	$	706,986

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

Nashville Preparatory Charter School
Reconciliation of Governmental Fund Balances to Net Position of Government Activities

June 30,		**2014**
TOTAL GOVERNMENTAL FUND BALANCES	**$**	**508,062**
Capital assets used in governmental activities		**656,454**
Long-term note payable used in governmental activities		**(252,604)**
NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION	**$**	**911,912**

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

Nashville Preparatory Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund

For the year ended June 30,		2014
		GENERAL FUND
GENERAL REVENUES		
District funding	$	2,778,849
Operating grants		409,722
Capital grants		55,000
Charges for services		12,025
Contributions		464,629
Other		8
TOTAL GENERAL REVENUES		3,720,233
EXPENDITURES		
CURRENT		
Salaries, wages, and benefits		1,831,438
Food service		199,841
Instructional		237,366
Rent and occupancy		158,833
Office		158,330
Organizational development		66,894
Other		52,412
Professional services and fees		181,492
Staff development		46,644
Transportation		283,978
TOTAL CURRENT EXPENDITURES		3,217,228
DEBT SERVICE		
Repayments of note payable		18,650
Interest		14,258
TOTAL DEBT SERVICE EXPENDITURES		32,908
CAPITAL OUTLAYS		501,289
TOTAL EXPENDITURES		3,751,425
EXCESS OF EXPENDITURES OVER REVENUES		(31,192)
OTHER FINANCING SOURCES		
Proceeds from note payable		271,254
TOTAL OTHER FINANCING SOURCES		271,254
CHANGE IN FUND BALANCE		240,062
FUND BALANCE, BEGINNING OF YEAR		268,000
FUND BALANCE, END OF YEAR	$	508,062

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

Nashville Preparatory Charter School
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the year ended June 30,		**2014**
NET CHANGE IN FUND BALANCE AS REPORTED IN THE GOVERNMENTAL FUND STATEMENTS	$	**240,062**
District funding reported on the statement of revenues, expenditures, and changes in fund balances - governmental fund based on availability which was during the year ended June 30, 2014, but reported as revenues on the statement of activities during the year ended June 30, 2013		**(52,967)**
Capital outlays - not reported as expenses on the statement of activities		**501,289**
Principal repayments on long-term note payable - not reported as expenditures on the statement of activities		**18,650**
Proceeds from long-term note payable - not reported as revenues on the statement of activities		**(271,254)**
Depreciation expense - reported as an expense on the statement of activities		**(128,708)**
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES	$	**307,072**

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

NOTE 1: NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Organization

Nashville Preparatory Charter School (the "Organization") operates two public charter schools in Nashville, Tennessee: Nashville Prep ("NP"), which opened for classes in August 2011, and Nashville Academy of Computer Science ("NACS"), which opened for classes in August 2014. The Organization was incorporated on August 9, 2010, as a Tennessee nonprofit corporation. Pursuant to the Tennessee Public Charter School Act of 2002 (the "Act"), the Organization has been approved to operate public charter schools. 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 the necessary outcomes of education.

Nashville Prep

The Organization 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 Nashville Prep. NP has fifth through seventh grades for the 2013-2014 school year, and will add eighth grade for the 2014-2015 school year. The Organization intends to add additional grade levels through the twelfth grade during each of the upcoming school years.

Pursuant to the Organization'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.

Nashville Academy of Computer Science

On June 25, 2013, the MNPS Board of Education approved the charter school application for NACS. NACS was in the planning states during the 2013-2014 school year, and will start with the fifth grade for the 2014-2015 school year. NACS intends to add additional grade levels through the eighth grade during each of the upcoming school years.

Pursuant to the Organization's charter agreement, enrollment in the school is open to any student within Davidson County, Tennessee. The Charter School Agreement currently allows up to 120 students per grade.

Basis of Accounting

The Organization's financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB").

The Organization, 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 Organization 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.

Financial Statements

The Organization's basic financial statements include both organization-wide (reporting the Organization as a whole) and fund financial statements (reporting the Organization's major fund). The Organization's primary activities are all considered to be governmental activities and are classified as such in the organization-wide and fund financial statements.

The organization-wide financial statements of the Organization 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 collectable within the current year or within 60 days after the end of the year.

Since the governmental fund financial statements are presented on a different basis than the organization-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the organization-wide financial statements.

Organization-wide Financial Statements

The organization-wide financial statements focus on the sustainability of the Organization as an entity and the change in the Organization's net position resulting from the current year's activities. Data from fiduciary funds, if any, is not incorporated in the organization-wide financial statements.

In the organization-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 Organization at year-end.

GASB 63 requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets – 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 improvement 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net position 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 positions that do not meet the definition of restricted or net investment in capital assets. When both restricted and unrestricted assets are available for use, it is the Organization's policy to utilize restricted assets first, then unrestricted assets as needed.

The organization-wide statement of activities reports both the gross and net cost of the Organization'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 Organization allocated indirect costs between functions.

Fund Financial Statements

The financial transactions of the Organization 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 balances, 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 Organization's only major fund is the General Fund, which is also the Organization's primary operating fund. It accounts for all financial resources of the Organization, except those required to be accounted for in another fund. All of the Organization's financial resources were accounted for in the General Fund as of June 30, 2014.

The governmental fund's focus is upon the determination of financial resources, their balances, sources and uses, rather than upon net income. The Organization 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 expenditures are incurred in which both restricted and unrestricted funds are available for use, it is the Organization's policy to spend restricted funds first, then unrestricted funds. When expenditures have been incurred for purposes in which committed, assigned, or unassigned funds are available, it is the Organization'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 Organization'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 fund balances that the Organization intends to use for specific purposes not classified as nonspendable, restricted or committed. The Organization gives the authority to assign amounts to specific purposes to each school's principal and personnel, under supervision of the chief financial officer, 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.

NOTE 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, food services, student transportation, and administration.

Cash and Cash Equivalents

The Organization 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, 2014, the Organization's cash and cash equivalents were deposited in one financial institution. The Organization routinely maintains deposit balances in excess of federally insured limits. The uninsured balance at June 30, 2014 totaled $406,870. The Organization's financial institution is a member of the Tennessee Bank Collateral Pool, which helps the Organization to mitigate custodial risk. The Organization does not have formal policies that address its exposure to custodial credit risk.

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, 2014.

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 Organization follows the practice of capitalizing all expenditures for property and equipment items over $500.

Estimated useful lives of capital assets are as follows:

Computers	5 years
Furniture and equipment	5 to 7 years
Leasehold improvements	Life of lease, up to 10 years

Grants

The Organization 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 Organization as of June 30, 2014.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization 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 Organization and recognize a tax liability (or asset) if the Organization 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 Organization, and has concluded that as of June 30, 2014, 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 Organization'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 Organization's first year of existence.

Budgetary Comparison Statement

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

NOTE 3: CAPITAL ASSETS

Capital assets activity for governmental activities for the year ended June 30, 2014 was as follows:

	June 30, 2013	**Additions**	**Disposals**	**June 30, 2014**
Computers	$ 166,679	**$ 98,552**	**$ -**	**$ 265,231**
Furniture and equipment	19,277	**153,377**	**-**	**172,654**
Leasehold improvements	126,064	**249,360**	**-**	**375,424**
	312,020	**501,289**	**-**	**813,309**
Accumulated depreciation	(28,147)	**(128,708)**	**-**	**(156,855)**
	$ 283,873	**$ 372,581**	**$ -**	**$ 656,454**

Depreciation expense was charged to governmental activities for the year ended June 30, 2014 as follows:

Student instruction	**$ 120,435**
Administration	**8,273**
Total	**$ 128,708**

NOTE 4: SHORT-TERM DEBT

The Organization had a line of credit designated for operations with a bank in the amount of $200,000. The interest rate was at the bank's prime rate (3.25% at June 30, 2014), but not less than 5.0%, it was secured by substantially all assets, and matured on September 2, 2014. The balance on the line of credit designated for operations was $0 at June 30, 2014.

Short-term debt activity for the year ended June 30, 2014 was as follows:

	Balance at June 30, 2013	Additions	Retirements	Balance at June 30, 2014	Amounts Due Within One Year
Line of credit - operations	$ -	$ -	$ -	**$ -**	$ -

NOTE 5: LONG-TERM DEBT

The Organization has a line of credit designated for facilities in the amount of $400,000. The loan bears interest at 6.0% and is secured by substantially all assets, and matures in June 26, 2018.

Long-term debt consists of the following at June 30, 2014:

Type	Maturity	Rate	Installments	Amount	**June 30, 2014**
Line of credit - facility	June 26, 2018	6.0%	$ 18,700	$ 400,000	**$ 252,604**

Future maturities of long-term debt are as follows:

Years Ending June 30,	Principal	Interest
2015	$ 39,296	$ 14,084
2016	41,624	11,666
2017	44,191	9,099
2018	127,493	6,373
	$ 252,604	$ 41,222

NOTE 6: LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	Balance at June 30, 2013	Additions	Retirements	**Balance at June 30, 2014**	Amounts Due Within One Year
Line of credit - facility	$ -	$ 271,254	$ (18,650)	**$ 252,604**	$ 39,296

NOTE 7: LEASES

The Organization entered into a lease agreement for a facility with Metro Nashville Public Schools for Nashville Prep. The lease was effective July 1, 2013 and expires June 30, 2023. 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 Organization is entitled to a fifty-percent (50%) credit against the payment of rent in an amount equal to the Organization'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 leasehold improvement expenditures.

The Organization entered into an operating lease agreement on March 25, 2014 for modular classrooms located at Nashville Prep. The lease is effective July 1, 2014 and expires June 30, 2023. Pursuant to the lease agreement, the monthly rent is $5,200.

The Organization also leases copier equipment under operating leases that expire through September 2016.

Total rent expense for all leases for the year ended June 30, 2014 totaled $114,771.

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

2015	$	162,611
2016		160,614
2017		141,539
2018		136,728
2019		194,024
2020 - 2024		887,054
	$	1,682,570

NOTE 8: RETIREMENT PLANS

SETHEEPP Plan Description (for Teacher-certified Employees)

The Organization 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, 2014 was 8.88% of annual covered payroll.

Metro Plan Description (for Non-teacher certified employees)

The Organization contributes to the Metropolitan Government of Nashville and Davidson County's Division B pension plan ("Metro Plan"), a cost-sharing multiple employer defined benefit 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, 2014 was 17.117% of annual covered payroll.

The Organization's contributions for both certified and non-certified employees are nonrefundable to either the Organization or its employees.

The Organization's retirement plan expense, related to both plans, is as follows for the years ended:

June 30, 2012	$	42,023
June 30, 2013		88,994
June 30, 2014		127,896

NOTE 9: RISK MANAGEMENT

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Organization purchases commercial insurance. The Organization has had no settled claims resulting from these risks that exceeded its commercial coverage during the year ended June 30, 2014.

NOTE 10: SUBSEQUENT EVENTS

On July 1, 2014, Liberty Collegiate Academy, another charter school in Nashville, was merged into the Organization and the name of the combined entity was changed to RePublic Schools Nashville.

The Organization entered into a lease agreement effective July 1, 2014 for a facility in Nashville, Tennessee, where Nashville Academy of Computer Science will be located for the 2014-2015 school year. The lease agreement requires rent of $1 per year and expires June 30, 2015.

The Organization entered into a purchase agreement on August 14, 2014 to purchase the facility where Nashville Academy of Computer Science is located for $2,200,000. Management intends to use this facility for its high school, RePublic High School, which will commence with the 9th grade for the 2015-2016 school year. Management intends to obtain additional funding to finance capital improvements to the facility.

NOTE 11: FUTURE ACCOUNTING PRONOUNCEMENTS

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

- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

The Organization 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

For the year ended June 30,				**2014**
Federal Grantor (Pass-through Grantor)	CFDA Number	Contract Number		Expenditures
FEDERAL AWARDS				
U.S. DEPARTMENT OF AGRICULTURE				
School Breakfast Program	10.553	N/A	$	**54,413**
National School Lunch Program	10.555	N/A		**95,400**
National School Afterschool Snacks Program	10.555	N/A		**21,758**
TOTAL PROGRAM 10.555				**117,158**
U.S. DEPARTMENT OF EDUCATION				
(Passed through from Tennessee Department of Education)				
Public Charter Schools Program	84.282A	N/A		**50,221**
(Passed through from Tennessee Department of Education and Metropolitan Nashville Public Schools)				
Special Education Grants to States	84.027	N/A		**77,644**
Title 1 Grants to Local Educational Agencies	84.010	N/A		**110,286**
TOTAL FEDERAL AWARDS			$	**409,722**
STATE FINANCIAL ASSISTANCE				
NONE	N/A	N/A		**-**
TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			$	**409,722**

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.

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

To the Board of Directors
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 the major fund of Nashville Preparatory Charter School as of and for the year ended June 30, 2014, 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 29, 2014.

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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

CARR, RIGGS & INGRAM, LLC

Nashville, Tennessee
December 29, 2014

There were no findings for the year ended June 30, 2014.

FINDING 2013-001

Condition: During testing of the Organization'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.

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

Views of Responsible Officials: Nashville Prep has trained its operations staff on food service program management processes that ensure compliance with applicable federal laws. No discrepancies were identified with the food service program data during the 2014 financial audit.