



Certified Public Accountants
and Financial Advisors

Nashville Classical Charter School
Financial Report
June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nashville Classical Charter School
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of Nashville Classical Charter School (Organization), as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Organization'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.

Opinion

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 Nashville Classical Charter School as of June 30, 2016, 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.

Prior Period Adjustment

As discussed in note 8 to the financial statements, in 2016 the Organization adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

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 4 through 10, schedules of proportionate share of net pension asset, and schedule of contributions on pages 41 through 44, 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nashville Classical Charter School's basic financial statements. The Schedule of Expenditures of Federal Awards on page 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This section 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

The Organizational structure on page 45 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of Nashville Classical 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 Nashville Classical Charter School's internal control over financial reporting and compliance.

SQUAR MILNER LLP

San Diego, California
December 6, 2016

**NASHVILLE CLASSICAL CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

As management of the Nashville Classical Charter School (Organization), we offer readers of the Organization's financial statements this narrative overview and analysis of the financial activities of the Organization for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the Organization'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.

These financial statements consist of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – Management Discussion and Analysis for State and Local Governments*.

FINANCIAL HIGHLIGHTS

- The Organization's ending net position was \$661,713.
- The change in net position for the year was an increase of \$209,260.
- The Organization had a deficiency of revenue under expenditures in the General Fund in the amount of \$453,962 in the current year compared to an excess of revenues over expenditures of \$10,193 in the previous year.
- The Organization had \$843,175 in additions to capital assets.
- For the fiscal year ended June 30, 2016, total revenues of \$2,504,186 were comprised of District funding – 88%, and federal pass-through funds – 3%, and other contributions and local funds – 9%.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Organization's basic financial statements.

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

**NASHVILLE CLASSICAL CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

OVERVIEW OF FINANCIAL STATEMENTS (continued)

More detailed information about the Organization's most significant funds – not the Organization as a whole is provided in the fund financial statements. Funds are accounting devices the Organization 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 Organization'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 Organization is improving or deteriorating.

The *Statement of Activities*, a government-wide statement, presents information showing how the Organization'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* and this Discussion and Analysis support these financial statements.

In addition to the Basic Financial Statements and notes, this report also presents Required Supplementary Information and Other Supplementary Information.

Statement of Net Position

To begin our analysis, a summary of the Organization'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 Organization, assets exceeded liabilities by \$661,713 as of June 30, 2016.

The Organization'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.

NASHVILLE CLASSICAL CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS (continued)

TABLE 1
Condensed Statement of Net Position

	2016	2015	\$ Change	% Change
ASSETS				
Current and other assets	\$ 888,496	\$ 1,299,209	\$ (410,713)	-31.6%
Capital assets, net of depreciation	908,926	286,150	622,776	217.6%
TOTAL ASSETS	1,797,422	1,585,359	212,063	13.4%
DEFERRED OUTFLOW OF RESOURCES				
Pension related costs	396,900	108,718	288,182	265.1%
LIABILITIES AND NET POSITION				
Current liabilities	238,761	108,079	130,682	120.9%
General long-term debt	883,517	975,000	(91,483)	100.0%
Total liabilities	<u>\$ 1,122,278</u>	<u>\$ 1,083,079</u>	<u>\$ 39,199</u>	3.6%
DEFERRED INFLOW OF RESOURCES				
Pension related costs	<u>\$ 410,331</u>	<u>\$ 158,544</u>	<u>\$ 251,787</u>	158.8%
NET POSITION				
Net investment in capital assets	908,926	286,150	622,776	217.6%
Unrestricted	(247,213)	166,304	(413,517)	-248.7%
Total net position	<u>661,713</u>	<u>452,454</u>	<u>209,259</u>	46.2%
TOTAL LIABILITIES AND				
NET POSITION	<u>\$ 1,797,422</u>	<u>\$ 1,535,533</u>	<u>\$ 261,889</u>	17.1%

Statement of Activities

The Organization's total revenues for the fiscal year ended June 30, 2016, increased by \$380,486 over June 30, 2015 revenues.

The Organization's total expenses increased by \$505,713 over June 30, 2015 expenses.

The change in net position was a decrease of \$125,221 compared to the prior year.

NASHVILLE CLASSICAL CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS (continued)

The following table presents a summary of the Statement of Activities for the fiscal year ended June 30, 2016:

TABLE 2
Statement of Activities

	2016	2015	\$ Change	% Change
GENERAL REVENUES				
District funding	\$ 2,199,093	\$ 1,669,230	\$ 529,863	31.7%
Federal revenues	73,857	270,587	(196,730)	-72.7%
Contributions and grants	182,981	175,133	7,848	4.5%
Other local revenues	48,255	8,750	39,505	451.5%
Total revenue	2,504,186	2,123,700	380,486	17.9%
FUNCTIONAL EXPENSES				
Student instruction and services	1,276,222	1,199,191	77,031	6.4%
General and administrative	1,018,705	590,023	428,682	72.7%
Total expenses	2,294,927	1,789,214	505,713	28.3%
CHANGE IN NET POSITION	<u>\$ 209,259</u>	<u>\$ 334,486</u>	<u>\$ (125,227)</u>	-37.4%

**NASHVILLE CLASSICAL CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

OVERVIEW OF FINANCIAL STATEMENTS (continued)

General Fund Budgetary Highlights

The organization's Total Budget for the General Fund for this fiscal year showed expenditures in excess of revenues of \$16,444 compared to the actual amount of a deficiency of revenues under expenditures of \$453,962. The Organizations budget to actual difference for the fiscal year was \$437,518.

The following table presents the expenditure variances from budgeted amounts in the General Fund:

	Budgeted Amount	Actual Amount	Variance
Revenue			
State	\$ 2,197,424	\$ 2,199,093	\$ 1,669
Federal	100,276	73,857	(26,419)
Local	165,575	231,236	65,661
Expenditures			
Personnel	1,099,339	1,095,786	\$ (3,553)
Employee Taxes/Benefits	335,939	263,563	(72,376)
Contracted Services	569,175	144,699	(424,476)
Supplies and Materials	286,939	161,794	(125,145)
Other Charges	24,913	414,636	389,723
Debt Services	38,700	-	(38,700)
Capital Expenses	26,816	-	(26,816)
Depreciation	97,898	214,449	116,551

Overall, the Organization ended the fiscal year in a stable position.

**NASHVILLE CLASSICAL CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

OVERVIEW OF FINANCIAL STATEMENTS (continued)

Capital Assets

During the 2015-2016 school year the Organization acquired \$843,174 in additions to capital assets.

**TABLE 3
Changes in Capital Assets**

	2016	2015	\$ Change	% Change
Construction in progress	\$ 99,087	\$ 234,255	\$ (135,168)	-57.7%
Computer equipment	41,659	41,659	-	0.0%
Furniture and fixtures	52,651	38,240	14,411	37.7%
Leasehold Improvements	716,503	-	716,503	100.0%
Building Improvements	241,479	-	241,479	100.0%
Less: accumulated depreciation	(242,453)	(28,004)	(214,449)	765.8%
Total capital assets, net of depreciation	<u>\$ 908,926</u>	<u>\$ 286,150</u>	<u>\$ 622,776</u>	217.6%

Long-Term Debt

During the 2015-2016 school year the Organization acquired an additional \$100,000 in long-term debt. The purpose of the additional loan is to fund additional leasehold improvements on a 1.47 acre site located at 1310 Ordway Place, Nashville TN 37206 and to maintain year end cash reserve levels.

**TABLE 4
Changes in Long-Term Debt**

	2016	2015	\$ Change	% Change
Note payable	\$ 1,075,000	\$ 975,000	\$ 100,000	10.3%
Total long-term debt	<u>\$ 1,075,000</u>	<u>\$ 975,000</u>	<u>\$ 100,000</u>	10.3%

**NASHVILLE CLASSICAL CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

FACTORS BEARING ON THE ORGANIZATION'S FUTURE

The Organization's outlook for future years is tied to growth. Enrollment has steadily increased since the school's inception, due to both increased popularity and class size. 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 ORGANIZATION

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 Davidson County public schools with a general overview of the schools' finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director Growth, Strategy and Talent, Arshia Saiyed by mail at 1310 Ordway Place, Nashville, Tennessee, 37206, by email: Asaiyed@nashvilleclassical.org, or by telephone at (615) 538-5841.

NASHVILLE CLASSICAL CHARTER SCHOOL
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities
ASSETS	
Cash in banks	\$ 848,856
Accounts receivable	7,922
Prepaid items	29,380
Capital assets, net of accumulated depreciation	908,926
Other current assets	2,315
Net pension asset	23
TOTAL ASSETS	<u><u>\$ 1,797,422</u></u>
DEFERRED OUTFLOW OF RESOURCES	
Pension related costs	\$ 396,900
LIABILITIES AND NET POSITION	
Current Liabilities:	
Accounts payable	4,424
Accrued liabilities	18,694
Deferred rent	11,031
Other current liabilities	13,129
Notes payable	191,483
Total current liabilities	<u>238,761</u>
Long-term liabilities:	
Note payable	883,517
Total long-term liabilities	<u>883,517</u>
Total liabilities	<u>1,122,278</u>
DEFERRED INFLOW OF RESOURCES	
Pension related costs	<u>410,331</u>
NET POSITION	
Net investment in capital assets	908,926
Unrestricted	(247,213)
TOTAL NET POSITION	<u><u>\$ 661,713</u></u>

NASHVILLE CLASSICAL CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2016

Functions/Programs	Student Instruction and Services	General and Administrative	Operating Grants and Contributions	Total Governmental Activities
GOVERNMENT ACTIVITIES				
Salaries, wages and benefits	\$ 904,769	\$ 392,336	\$ -	\$(1,297,105)
Staff development	-	62,244	-	(62,244)
Instructional	125,104	36,690	-	(161,794)
Other student services - Transportation	152,963	-	-	(152,963)
Insurance	-	21,069	-	(21,069)
Operation and housekeeping services	-	178,634	-	(178,634)
Operations	-	-	2,455,931	2,455,931
Rental, leases, and repairs				
non-capitalized improvements	-	25,961	-	(25,961)
Professional/consulting services and				
operating expenditures	65,504	87,322	-	(152,826)
Communications	27,882	-	-	(27,882)
Depreciation	-	214,449	-	(214,449)
TOTAL GOVERNMENT ACTIVITIES	\$ 1,276,222	\$ 1,018,705	\$ 2,455,931	161,004
GENERAL REVENUES				
				48,255
Local revenues				48,255
Total general revenues				48,255
CHANGE IN NET POSITION				209,259
NET POSITION - BEGINNING				568,961
PRIOR PERIOD ADJUSTMENT				(116,507)
NET POSITION - ENDING				\$ 661,713

NASHVILLE CLASSICAL CHARTER SCHOOL
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2016

	General Fund
<hr/>	
ASSETS	
Cash on hand and in banks	\$ 848,856
Accounts receivable	7,922
Prepaid items	29,380
Other current assets	2,315
TOTAL ASSETS	<hr/> \$ 888,473 <hr/>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 4,424
Accrued liabilities	18,694
Other current liabilities	13,129
Total liabilities	<hr/> 36,247
FUND BALANCE	
Unassigned	852,226
Total fund balance	<hr/> 852,226
TOTAL LIABILITIES AND FUND BALANCE	<hr/> \$ 888,473 <hr/>

**NASHVILLE CLASSICAL CHARTER SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUNDS –
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2016**

Total fund balances - governmental fund balance sheet	\$ 852,226
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	908,926
Deferred outflows relating to pension costs which are applicable to future periods are not reported in the funds.	396,900
Net pension assets are not reported in the funds	23
Deferred rent is not reported in the funds	(11,031)
Deferred inflows relating to pension costs which are applicable to future periods are not reported in the funds.	(410,331)
Notes payable which are not due in the current period are not reported in the funds	<u>(1,075,000)</u>
Net position of governmental activities - Statement of Net Position	<u><u>\$ 661,713</u></u>

NASHVILLE CLASSICAL CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2016

	General Fund
REVENUES	
District Funding	\$ 2,199,093
Federal revenue	73,857
Contributions	182,981
Other local revenue	48,255
Total revenues	<u>2,504,186</u>
EXPENDITURES	
Current:	
Salaries, wages and benefits:	
Student instruction and services	904,769
Administration	426,830
Staff development	62,244
Instructional	161,794
Other student services	152,963
Insurance	21,069
Operation and housekeeping services	178,634
Rental, leases, and repairs	
non-capitalized improvements	25,961
Professional/consulting services and	
operating expenditures	152,827
Communications	27,882
Capital Outlay	843,175
Total expenditures	<u>2,958,148</u>
Excess (deficiency) of revenues over (under) expenditures	(453,962)
Other financing sources (uses)	
Proceeds from long term debt	<u>100,000</u>
Total other financing sources (uses)	<u>100,000</u>
NET CHANGE IN FUND BALANCE	(353,962)
FUND BALANCE, JULY 1	1,206,188
FUND BALANCE, JUNE 30	<u><u>\$ 852,226</u></u>

**NASHVILLE CLASSICAL CHARTER SCHOOL
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, 2016**

Net change in fund balances - total governmental funds	\$ (353,962)
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	843,175
The depreciation of capital assets used in governmental activities is not reported in the funds.	(214,449)
Pension costs are recognized when contributions are made in the funds but are recognized on an accrual basis for the SOA	34,495
Proceeds from issuance of notes payable are revenue in the funds but not revenue in the SOA.	<u>(100,000)</u>
Change in net position of governmental activities - Statement of Activities	<u><u>\$ 209,259</u></u>

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES

Organization

Nashville Classical Charter School (Organization) was incorporated on March 31, 2011, as a Tennessee nonprofit corporation. Pursuant to the Tennessee Public Charter School Act of 2002 (the Act), the Organization 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 Organization entered into a Charter School Agreement with the Metropolitan Board of Public Education of Nashville and Davidson County (MNPS) on May 30, 2013, to operate a charter school in Nashville, Tennessee. The Organization began classes in July 2013 with kindergarten classes, and will 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 Organization is open to any student within Davidson County, Tennessee.

Accounting Policies

The accounting policies of the Organization conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Reporting Entity

The Organization's financial statements include the accounts of all its operations. The Organization evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the Organization's reporting entity, as set forth in GASB Statement No. 14, The Financial Reporting Entity, and subsequently amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14, and GASB No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34, include whether:

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

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued)

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

Basis of Presentation, Basis of Accounting

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. These statements distinguish between the governmental and business-type activities of the Organization. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-Type activities are financed in whole or in part by fees charged to external parties. The organization has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Organization'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 Organization does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients for 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 Organization'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 funds are aggregated and reported as non-major funds.

The Organization reports the following major governmental funds:

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

Non-Major Governmental Funds:

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

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting

Government-Wide 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. Non exchange transactions, in which the Organization 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 Organization does not consider revenues collected 60 days after its fiscal year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues 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.

Implementation of GASB Pronouncements

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement was effective for the current fiscal year. Implementation of this GASB had no significant effect on the Organization's financial statements.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of GASB Pronouncements (continued)

In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement establishes the hierarchy of GAAP for all state and local governments. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. This statement became effective in fiscal year 2016. Implementation of this GASB had no significant effect on the Organization's financial statements.

Assets, Liabilities, and Equity

Cash

Cash consists of cash on hand and cash in banks. As of June 30, 2016, the Organization's cash was deposited into two financial institutions.

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.

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.

Prepaid Expenditures

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Capital Assets (continued)

assets, ranging from three to ten years. The Organization follows the practice of capitalizing all expenditures for property and equipment items over \$5,000.

Compensated Absences

No accrual for compensated absences is necessary for the Organization's faculty/staff because the summer months, during which classes are not in session, is considered employees' vacation. The administrative employees of the Organization follow the same schedule as the teachers and other employees of the Organization; therefore, no compensated absences accrual for any employees of the Organization is appropriate.

Debt

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

Grant Revenue

The Organization 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 Organization as of June 30, 2016.

Net Position and Fund Balance Reserves and Designations

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investments in capital assets, restricted, and unrestricted.

- Net investment in capital assets. This category groups all capital assets into one component of net position. Accumulated depreciation on these assets and the outstanding principal of any unrelated debt reduce this category.
- Restricted Net Position. This category represents external restrictions composed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by the law through constitutional provisions or enabling legislation.
- Unrestricted Net Position. This category represents the remaining net position of the JPA that does not meet the definition of the above two categories.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Net Position and Fund Balance Reserves and Designations (continued)

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

The Organization 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:

- Non-spendable, such as fund balance associated with revolving funds, inventories, pre-paid expenses, 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 Organization incurs an expense for which both restricted and unrestricted resources may be used, it is the Organization's policy to use restricted resources first, then unrestricted resources.

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

Minimum Fund Balance Policy

The Organization 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.

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.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

2. CASH

Cash at June 30, 2016, consisted of the following:

Cash in banks	\$ 848,856
Total	<u>\$ 848,856</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. At June 30, 2016, the Organization had \$660,806 in excess of FDIC insured limits.

3. ACCOUNTS RECEIVABLE

Accounts Receivable as of June 30, 2016, consisted of the following

	<u>General Fund</u>
Federal Government:	
Federal Programs	\$ 7,922
Total accounts receivable	<u>\$ 7,922</u>

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

4. CAPITAL ASSETS

A schedule of changes in capital assets for the fiscal year ended June 30, 2016, is shown below:

	Beginning 2016	Additions	Deletions	Ending 2016
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 99,087	\$ -	\$ 99,087
Total capital assets, not being depreciated	-	99,087	-	99,087
Capital assets, being depreciated:				
Computer equipment	41,659	-	-	41,659
Furniture and fixtures	38,240	14,411	-	52,651
Building Improvements	234,255	7,224	-	241,479
Leasehold Improvements	-	722,453	(5,950)	716,503
Total capital assets, being depreciated	314,154	744,088	(5,950)	1,052,292
Less accumulated depreciation for:				
Computer equipment	(18,109)	(13,886)	-	(31,995)
Furniture and fixtures	(9,895)	(10,050)	-	(19,945)
Building Improvements	-	(47,212)	-	(47,212)
Leasehold Improvements	-	(143,301)	-	(143,301)
Total accumulated depreciation	(28,004)	(214,449)	-	(242,453)
Capital assets, net of depreciation	<u>\$ 286,150</u>	<u>\$ 529,639</u>	<u>\$ (5,950)</u>	<u>\$ 908,926</u>
Governmental activities:				
General and administrative				<u>\$ 214,449</u>
Total depreciation				<u>\$ 214,449</u>

During the fiscal year ended June 30, 2016, \$214,449 was charged to depreciation expense.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

5. LONG-TERM OBLIGATIONS

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2016, are as follows:

	Beginning			Ending	Amounts
Governmental Activities	Balance	Increases	Decreases	Balance	Due Within
					One Year
Note payable	\$ 975,000	\$ 100,000	\$ -	\$1,075,000	\$ 191,483
Total Governmental Activities	<u>\$ 975,000</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$1,075,000</u>	<u>\$ 191,483</u>

Note Payable

On June 10, 2015, the Organization entered into a promissory note for \$975,000 with Avenue Bank, at 4.50% per annum, with monthly installments of principal and interest of \$15,406 through May 20, 2022. On March 18, 2016 the organization acquired an additional \$100,000 in debt with monthly interest payments and the first principal payment due in April of 2017. The purpose of the loan is to fund leasehold improvements on a 1.47 acre site located at 1310 Ordway Place, Nashville TN 37206. The outstanding balance was \$1,075,000 for the fiscal year ended June 30, 2016.

Debt service requirements for the note payable are as follows:

Notes Payable			
Year Ending			
June 30,	Principal	Interest	Total
2017	\$ 191,483	\$ 50,564	\$ 242,047
2018	170,671	36,267	206,938
2019	178,511	28,426	206,937
2020	186,712	20,225	206,937
2021	195,290	11,647	206,937
2022	152,333	2,870	155,203
	<u>\$ 1,075,000</u>	<u>\$ 149,999</u>	<u>\$ 1,224,999</u>

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

5. LONG-TERM OBLIGATIONS (continued)

Revolving Line of Credit

On March 19, 2016, the Organization entered into an unsecured revolving line of credit for \$100,000 with Avenue Bank, at prime rate (3.50 % at June 30, 2016) plus one percentage point or 4.50%. The line of credit matures March 18, 2017. The outstanding balance was \$0 for the fiscal year ended June 30, 2016.

Operating Leases

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

Year Ending June 30,	Lease Payments
2017	\$ 125,045
2018	127,547
2019	130,098
2020	132,699
2021	135,353
2022 - 2025	569,031
Total future minimum payments	<u>\$ 1,219,773</u>

The Organization will receive no sublease rental revenues nor pay any contingent rentals associated with these leases. As stated in the rental agreement, the Organization shall be entitled to credit against the rent an amount equal to the tenant improvement expenditures.

6. RETIREMENT PLAN

Hybrid

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Legacy Pension Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Retirement Plan. Investments are reported at fair value.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Hybrid (continued)

Plan Description

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Nashville Classical Charter School is provided with pensions through the Teacher Retirement Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are eligible to retire with an unreduced benefit at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 and vested or pursuant to the rule of 80. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits.

A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Hybrid (continued)

Contributions

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in law. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except in years when the maximum funded level, as established by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Nashville Classical Charter School for the year ended June 30, 2016 to the Teacher Retirement Plan were \$15,849 which is 4.00 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Asset

At June 30, 2016, Nashville Classical Charter School reported an asset of \$4,346 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial value as of that date. Nashville Classical Charter School proportion of the net pension asset was based on Nashville Classical Charter School share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2015 Nashville Classical Charter School proportion was .108031 percent.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Hybrid (continued)

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2016, the Organization reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,415
Net difference between projected and actual earning on pension plan investments	351	-
Changes in proportion of Net Pension Asset	-	-
Contributions subsequent to the measurement date of June 30, 2015	15,849	-
Total	<u>\$ 16,200</u>	<u>\$ 1,415</u>

The Organization's employer contributions of \$15,849 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase in net pension asset in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Hybrid (continued)

Deferred outflows of resources and deferred inflows of resources (continued)

	Year Ended June 30
2017	\$ (30)
2018	(30)
2019	(30)
2020	(30)
2021	(118)
Thereafter	(825)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 Percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of Living Adjustment	2.5 percent

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Hybrid (continued)

Actuarial Assumptions (continued)

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
	Total	<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Hybrid (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the Organization's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Organization's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease	Discount	1% Increase
	6.50%	Rate (7.5%)	8.50%
Organization's proportionate share			
share of the net pension liability (asset)	\$ 771	\$ (4,346)	\$ (8,099)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Payable to the Pension Plan

At June 30, 2016, the Organization reported a payable of \$2,338 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Legacy

Plan Description

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Nashville Classical Charter Schools are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Legacy Pension Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Legacy (continued)

Contribution

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by the Organization for the year ended June 30, 2016 to the Teacher Legacy Pension Plan were \$51,682 which is 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension Liability

At June 30, 2016, the Organization reported a liability of \$6,247 for its proportionate share of net pension liability. The net pension liability is measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability was based on the Organization's employer contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2015 the Organization's proportion was .015250 percent. The proportion measured as of June 30, 2014 was 0.000000 percent.

Pension Expense

For the year ended June 30, 2016, the Organization recognized a pension expense of \$27,340.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Legacy (continued)

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2016, the Organization reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,014	\$ 97,237
Net difference between projected and actual earning on pension plan investments	112,803	153,136
Changes in proportion of Net Pension Asset	163,072	-
Contributions subsequent to the measurement date of June 30, 2015	51,682	-
Total	<u><u>\$ 332,571</u></u>	<u><u>\$ 250,373</u></u>

The Organization's employer contributions of \$51,682 reported as pension related deferred outflows of resources, subsequent to the measurement date will be recognized as an increase in net pension asset in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Year Ended June 30</u>
2017	\$ (8,675)
2018	\$ (8,675)
2019	\$ (8,675)
2020	\$ (8,675)
2021	\$ 42,371
Thereafter	\$ 14,170

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Legacy (continued)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease the pension expense.

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 Percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of Living Adjustment	2.5 percent

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Legacy (continued)

Actuarial Assumptions (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
	Total	<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NASHVILLE CLASSICAL CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

6. RETIREMENT PLAN (continued)

Legacy (continued)

Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the Organization's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Organization's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease 6.50%	Current Discount Rate (7.5%)	1% Increase 8.50%
Organization's proportionate share share of the net pension liability (asset)	\$ 425,905	\$ 6,247	\$ (341,180)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

Payable to the Pension Plan

At June 30 2016, the Organization reported a payable of \$2,338 for the outstanding amount of contributions to the pension plan required at June 30, 2016.

7. COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The Organization 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.

8. PRIOR PERIOD ADJUSTMENT

The Organization made a prior period adjustment to record a change in accounting principles, GASB 68 Accounting and Financial Reporting for Pensions, an amendment of GASB 27. The effect of this change on net position was a decrease of \$116,507.

REQUIRED SUPPLEMENTARY INFORMATION

**NASHVILLE CLASSICAL CHARTER SCHOOL
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (ASSET)
TEACHER RETIREMENT PLAN OF TCRS
For the Year Ended June 30, 2016**

	<u>2015</u>	<u>2016</u>
Nashville Classical's Proportion of the net pension liability (asset)	0.000000%	0.108031%
Nashville Classical's proportionate share of the net pension liability (asset)	\$ -	\$ (4,346)
Nashville Classical's covered payroll	\$ -	\$ 224,460
Nashville Classical's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.00%	(0.0194)
Plan fiduciary net position as a percentage of total pension liability	0.00%	127.46%

*The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**NASHVILLE CLASSICAL CHARTER SCHOOL
SCHEDULE OF PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (ASSET)
TEACHER LEGACY PENSION PLAN OF TCRS
For the Year Ended June 30, 2016**

	2015	2016
Nashville Classical's Proportion of the net pension liability (asset)	0.000000%	0.015250%
Nashville Classical's proportionate share of the net pension liability (asset)	-	\$ 6,247
Nashville Classical's covered payroll	-	\$ 570,899
Nashville Classical's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.000000%	1.094253%
Plan fiduciary net position as a percentage of total pension liability	100.08%	99.81%

This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

NASHVILLE CLASSICAL CHARTER SCHOOL
SCHEDULE OF CONTRIBUTIONS
TEACHER RETIREMENT PLAN OF TCRS
For the Year Ended June 30, 2016

	<u>2015</u>	<u>2016</u>
Contractually Required	\$ 224	\$ 15,849
Contribution in relation to the contractually required contribution	\$ 8,978	\$ 15,849
Contribution deficiency (excess)	\$ (8,754)	\$ -
Nashville Classical's Covered Payroll	\$ 224,460	\$ 224,460
Contributions as a percentage of Nashville Classical's covered payroll	4.00%	4.00%

*The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

NASHVILLE CLASSICAL CHARTER SCHOOL
SCHEDULE OF CONTRIBUTIONS
TEACHER LEGACY PENSION PLAN OF TCRS
For the Year Ended June 30, 2016

	<u>2015</u>	<u>2016</u>
Contractually Required	\$ 51,609	\$ 51,682
Contribution in relation to the contractually required contribution	\$ 51,609	\$ 51,682
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
Nashville Classical's Covered Payroll	\$ 570,889	\$ 570,889
Contributions as a percentage of Nashville Classical's covered payroll	9.04%	9.04%

This is a 10 year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

OTHER SUPPLEMENTARY INFORMATION

NASHVILLE CLASSICAL CHARTER SCHOOL
ORGANIZATIONAL STRUCTURE
June 30, 2016

Nashville Classical Charter School (Organization) was established in 2013. The Organization is currently operating one school and serves grades kindergarten through 2nd grade. The location of the school is 1310 Ordway Place, Nashville, TN 37206.

The Board of Directors for the fiscal year ended June 30, 2016, was comprised of the following members:

Governing Board			
Name	Office	Term	Term Expiration
David Mansouri	Chairman	3 years	July 2018
Christian Paro	Vice Chairman	3 years	July 2018
Jane Meneely	Treasurer	3 years	July 2016
Dawn Cornelius	Secretary	2 years	January 2016
Miranda Christy	Board Member	3 years	January 2019
Rolan Hairston	Board Member	3 years	February 2019
Marcus Williamson	Board Member	3 years	July 2016
Don Hardin	Board Member	3 years	July 2017
Mike Lovett	Board Member	3 years	July 2017
Judy Price	Board Member	3 years	October 2018
Rebecca Ayer	Board Member	3 Years	July 2018

Administration	
Name	Position
Charlie Friedman	Head of School
Arshia Saiyed	Director of Operations

NASHVILLE CLASSICAL CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

Federal Grantor/ Pass-Through Entity Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Direct:			
Passed through Tennessee Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	N/A	55,442
Special Ed: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	N/A	18,415
Total U.S. Department of Education			<u>73,857</u>
Total Expenditures of Federal Awards			<u><u>\$ 73,857</u></u>

NOTE ON BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Nashville Classical Charter School, and is presented on the modified accrual basis of accounting.

OTHER INDEPENDENT AUDITOR'S REPORTS

**INDEPENDENT AUDITOR'S 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
Nashville Classical 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 Classical Charter School, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Nashville Classical Charter School's basic financial statements, and have issued our report thereon dated December 6, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nashville Classical 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 Classical Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Nashville Classical 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 Classical 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.

SQUAR MILNER LLP

San Diego, California
December 6, 2016

FINDINGS AND RECOMMENDATIONS

**NASHVILLE CLASSICAL CHARTER SCHOOL
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2016**

SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Nashville Classical Charter School.
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 Nashville Classical Charter School, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. Nashville Classical Charter School did not have over \$750,000 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 Organization did not have over \$750,000 in Federal Expenditures.

**NASHVILLE CLASSICAL CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2016**

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Management's Explanation if Not Implemented</u>
None	N/A	N/A