Nashville Classical Charter School

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Period from March 31, 2011
(Date of Inception) to June 30, 2014

Nashville Classical Charter School
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INDEPENDENT AUDITORS' REPORT

To the 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 the major fund of Nashville Classical Charter School as of June 30, 2014 and for the period from March 31, 2011 (Date of Inception) to June 30, 2014, and the related notes to the financial statements, which collectively comprise Nashville Classical Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 School'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 Nashville Classical Charter School as of June 30, 2014, and the respective changes in financial position for the period 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 Classical 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 22, 2014, 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 the School's internal control over financial reporting and compliance.

CARR, RIGGS & INGRAM, LLC

Nashville, Tennessee
December 22, 2014

Our discussion and analysis of Nashville Classical Charter School's (the School) annual financial performance provides an overview of the School's financial activities for the period March 31, 2011 to June 30, 2014. Since the period from March 31, 2011 to June 30, 2014 is the school's first period of operations, comparison to prior years is not possible. However, in June 30, 2015's discussion the following sections will show a condensed financial comparison of the School's assets, liabilities, net position, revenues and expenses and provide explanations for significant differences. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The assets of the School exceeded its liabilities by $234,475. Net position increased by $234,475 during the period from March 31, 2011 to June 30, 2014. Outlays for new capital assets totaled $37,348. Total revenues of $1,704,365 were comprised of federal pass-through funds (23%), district funds (54%), and charitable contributions (22%) for the period from March 31, 2011 to June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REPORTING THE SCHOOL AS A WHOLE

In general, users of these financial statements want to know if the School is in a better or worse financial position as a result of the period's activities. The Statement of Net Position and Statement of Activities report information about the School as a whole and about the School's activities in a manner that helps to answer that question. These statements include information regarding all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current period'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 School's net position (total assets less total liabilities). The School'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 period and also assists in determining the School's financial health during the period. Users of these statements will want to consider non-financial factors and financial data before arriving at a conclusion regarding the overall health of the School.

FUND FINANCIAL STATEMENTS

The School'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 School's most significant funds, not the School as a whole. Funds are established by the School as required to help manage money for particular purposes and compliance with various donors and grant provisions.

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

SCHOOL-WIDE FINANCIAL ANALYSIS

Net Position

The School's assets exceeded the School's liabilities at the close of the period, resulting in a net position of $234,475 The School's net position includes $177,478 of cash, all of which is available to meet the School's ongoing activities.

Capital Assets

As of June 30, 2014, the School's net investment in capital assets was $30,462. This investment includes instructional and support furniture, instructional computers for instructors, and maintenance equipment. The School expects additional property and equipment investments in the school year 2014-2015, as student enrollment is expected to double, due to the addition of first grade. Additional information on property and equipment is located in Note 3.

Facilities

The School leases its school facility from the Tennessee Charter School Association for the school year 2013-2014 in Nashville, Tennessee. This lease expires June 30, 2015. The School is considering moving into a new location in Nashville, Tennessee, which will allow the School to add additional grade levels through eighth grade.

Debt

The School has no debt as of and for the period ended June 30, 2014.

Summary of Net Position

A schedule of the School's net position as of June 30, 2014 is a follows:

June 30,		**2014**
Current assets	$	**246,704**
Capital assets, net		**30,462**
TOTAL ASSETS		**277,166**
Current liabilities		**42,691**
Long-term liabilities		**-**
TOTAL LIABILITIES		**42,691**
Net position		
Net investment in capital assets		**30,462**
Unrestricted		**204,013**
TOTAL NET POSITION	$	**234,475**

Changes in Net Position

The School's total net position increased $234,475 during the period from March 31, 2011 to June 30, 2014. The increase in the School's net position indicates that the School had more incoming revenues than outgoing expenses during the period.

Total revenues generated from government grants, governmental funds, and contributions were $1,704,365 during the period from March 31, 2011 to June 30, 2014. Contributions from individuals and organizations were $380,277 due primarily to support from individuals, foundations, and corporate donors. District funding began during the school year 2013-2014. The School focused on building enrollment through concerted recruiting and marketing efforts in the community and was able to generate an initial enrollment of 96 students when it opened its doors July 31, 2013.

Total expenses were $1,469,890 during the period from March 31, 2011 to June 30, 2014. The majority of these expenses are related to Nashville Classical Charter School's start up and

implementation of the charter school, employee compensation, instruction, and occupancy. Nashville Classical Charter School's began its operations during the period from March 31, 2011 to June 30, 2014, which included hiring a head of school, school operations manager, and various instructors and support staff.

The change in net position was $234,475. Operating expenses during the period from March 31, 2011 to June 30, 2014 were primarily for startup, implementation, and education-related expenses. The increases in revenue from contributions, district funding, and federal grants more than offset the School's expenses.

A schedule of the School's revenues and expenses for the period ended March 31, 2011 to June 30, 2014 is as follows:

For the Period from March 31, 2011 to June 30,		**2014**
Contributions	**$**	**380,277**
District funding		**898,646**
Operating grants		**397,351**
Capital grants and contributions		**16,000**
Charge for services		**11,928**
Other		**163**
Total revenues		**1,704,365**
Student instruction		**639,077**
Food service		**88,868**
Student transportation		**104,585**
Administration		**637,360**
Total expenses		**1,469,890**
Change in net position	**$**	**234,475**

The schedule is for the School as a whole, and not just for the School's governmental fund.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the balance sheet on page 12, report a combined fund balance of $204,013. All of the School's funds are in the general fund, which is the chief operating fund of the School.

Due to the different basis of accounting, there is a difference between the amounts reported under the School's funds and the amounts reported as school-wide. For the period from March 31, 2011 to June 30, 2014, the differences consist of outlays of capital assets, which are not reported in the School's funds, and depreciation expense.

SCHOOL ACTIVITIES

Nashville Classical Charter School opened in July 2013 as an elementary school with kindergarten. The School recruits students from Davidson County. The school is an open enrollment public school and accepts students from a wide range of academic and socioeconomic backgrounds. Our mission is to educate students in grades kindergarten to eight through a classical curriculum and within an achievement-oriented culture toward academic success and personal excellence in high school, college, and life.

Our doors open at 7:30AM and our instructional day runs from 8:00AM to 4:00PM. On Friday, scholars have an early dismissal at 2:00PM and the school provides professional development to staff, which remain until 4:30PM Monday through Friday.

Nashville Classical Charter School (Nashville Classical) seeks to make history. Our scholars will achieve unprecedented academic success and demonstrate excellent character. Unanimously approved in May 2011, Nashville Classical opened with 100 kindergarten scholars on July 31st, 2013. These students comprise the College Class of 2030 and receive college preparation starting in kindergarten, moving seamlessly through the key components of a rigorous, classical education during the elementary years.

Inherent in a classical education are three concepts – grammar, logic, and rhetoric – along with three components – structured learning, great books, and the spoken language. Providing a strategically sequenced, standards-driven education, and a targeted focus on literacy in the youngest grades, these concepts and components align fully and well with assessments built to test the national Common Core Standards, priorities identified by the Tennessee Department of Education, and the ambitious goals of Metropolitan Nashville Public Schools.

As a school, our commitment is to combine a classical framework with seven core beliefs of successful, urban charter schools, studied during the Building Excellent Schools Fellowship (1) All scholars can and will learn (2) All scholars must be reading at or above grade level by third grade (3) All staff receives daily, weekly, and monthly targeted professional development (4) Structure is the foundation for joy and creativity (5) K-2 assessments must address math and literacy development;

grades 3-8 assessments must address mastery of skill and content in every subject (6) A longer school day/year and strategic daily schedule maximize achievement (7) A deep, pro-active partnership between home and school fosters scholar achievement.

Our year one results indicate Nashville Classical's approach can succeed. Based on the Terra Nova, a national, standardized, norm-referenced assessment, our kindergarten scholars achieved the following:

- An average national median percentile of 89%
- A grade level equivalent of 1.7 (i.e. May of 1st Grade)
- More than 70% perform in the nation's top quartile
- Exactly 50% perform in the nation's top decile
- Ten percent of our scholars achieve in the nation's top one percent

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Enrollment for the year ending June 30, 2015 is projected to be 181 students, an increase of 83 students to account for the addition of first grade classes. State and federal revenues are budgeted at approximately $1.945 million. Student and staff related expense are expected to increase with the additional student enrollment. Overall expenses will increase as a percentage of total revenues. Total expenses are budgeted to be $1.864 million, producing a budgeted operating surplus of $82,000. An annual operating deficit is not expected for fiscal year 2015.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students' families, Davidson County taxpayers, local and national donors, creditors, authorities over grant funding and agencies tasked with oversight of Metropolitan Nashville Public Schools with a general overview of the School's finances and to demonstrate the School's accountability of the school's fiscal activities. For questions about this report or additional financial information, contact the school operations manager, Lucie Rhoads, at 214 S. 10th Street, Nashville, Tennessee, 37206 by telephone at (615) 538-5841 or email lrhoads@nashvilleclassical.org.

Nashville Classical Charter School
Statement of Net Position

June 30,		**2014**
		GOVERNMENTAL ACTIVITIES
ASSETS		
Cash	$	**177,478**
Receivables		**5,399**
Prepaid expenses		**63,827**
Capital assets, net		**30,462**
TOTAL ASSETS	$	**277,166**
LIABILITIES		
Accounts payable	$	**23,331**
Accrued expenses		**19,360**
TOTAL LIABILITIES		**42,691**
NET POSITION		
Net investment in capital assets		**30,462**
Unrestricted		**204,013**
TOTAL NET POSITION		**234,475**
TOTAL LIABILITIES AND NET POSITION	$	**277,166**

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

Nashville Classical Charter School
Statement of Activities

For the Period from March 31, 2011 to June 30, **2014**

SCHOOL ACTIVITIES:	TOTAL	FUNCTIONS: STUDENT INSTRUCTION	FOOD SERVICES	STUDENT TRANSPORTATION	ADMINISTRATION
EXPENSES					
Salaries, wages, and benefits	$ 675,496	$ 384,361	$ -	$ -	$ 291,135
Food service	88,868	-	88,868	-	-
Instructional	121,754	121,754	-	-	-
Rent and occupancy	217,369	126,076	-	-	91,293
Office	40,587	-	-	-	40,587
Organizational development	66,696	-	-	-	66,696
Professional services and fees	147,649	-	-	-	147,649
Transportation	104,585	-	-	104,585	-
Depreciation	6,886	6,886	-	-	-
TOTAL EXPENSES	1,469,890	639,077	88,868	104,585	637,360
PROGRAM REVENUES					
Charges for services	11,928	-	11,928	-	-
Operating grants	397,351	327,653	69,698	-	-
Capital grants	16,000	16,000	-	-	-
NET PROGRAM EXPENSES	1,044,611	$ 295,424	$ 7,242	$ 104,585	$ 637,360
GENERAL REVENUES					
District funding	898,646				
Contributions	380,277				
Other	163				
TOTAL GENERAL REVENUES	1,279,086				
CHANGE IN NET POSITION	234,475				
NET POSITION, BEGINNING OF PERIOD	-				
NET POSITION, END OF PERIOD	$ 234,475				

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

Nashville Classical Charter School
Balance Sheet – Governmental Fund

June 30,		2014
		GENERAL FUND
ASSETS		
Cash	$	177,478
Receivables		5,399
Prepaid expenses		63,827
TOTAL ASSETS	$	246,704
LIABILITIES		
Accounts payable	$	23,331
Accrued expenses		19,360
TOTAL LIABILITIES		42,691
FUND BALANCES		
Nonspendable		63,827
Unassigned		140,186
TOTAL FUND BALANCES		204,013
TOTAL LIABILITIES AND FUND BALANCES	$	246,704

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

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

June 30,		**2014**
TOTAL GOVERNMENTAL FUND BALANCES	**$**	**204,013**
Capital assets used in governmental activities		**30,462**
NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION	**$**	**234,475**

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

Nashville Classical Charter School
Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund

For the Period from March 31, 2011 to June 30,		**2014**
		GENERAL FUND
GENERAL REVENUES		
District funding	**$**	**898,646**
Operating grants		**397,351**
Capital grants		**16,000**
Charges for services		**11,928**
Contributions		**380,277**
Other		**163**
TOTAL GENERAL REVENUES		**1,704,365**
EXPENDITURES		
CURRENT		
Salaries, wages, and benefits		**675,496**
Food service		**88,868**
Instructional		**121,754**
Rent and occupancy		**217,369**
Office		**40,587**
Organizational development		**66,696**
Professional services and fees		**147,649**
Transportation		**104,585**
TOTAL CURRENT EXPENDITURES		**1,463,004**
CAPITAL OUTLAYS		**37,348**
TOTAL EXPENDITURES		**1,500,352**
NET CHANGE IN FUND BALANCES		**204,013**
FUND BALANCES, BEGINNING OF PERIOD		**-**
FUND BALANCES, END OF PERIOD	**$**	**204,013**

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

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

For the Period from March 31, 2011 to June 30,		**2014**
NET CHANGE IN FUND BALANCES AS REPORTED IN THE GOVERNMENTAL FUND STATEMENTS	**$**	**204,013**
Capital outlays - not reported as expenses on the statement of activities		**37,348**
Depreciation expense - reported as an expense on the statement of activities		**(6,886)**
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION	**$**	**234,475**

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

NOTE 1: NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Organization

Nashville Classical Charter School (the "School") was incorporated on March 31, 2011, as a Tennessee nonprofit corporation. Pursuant to the Tennessee Public Charter School Act of 2002 (the "Act"), the School has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state's public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education. The School entered into a Charter School Agreement with the Metropolitan Board of Public Education of Nashville and Davidson County ("MNPS") on May 30, 2013, to operate a charter school in Nashville, Tennessee. The School began classes in July 2013 with kindergarten classes, and will add additional grade classes for the school year 2014-2015. The School intends to add additional grade levels through the eighth grade during each of the upcoming school years.

Pursuant to the School's charter agreement, enrollment in the School is open to any student within Davidson County, Tennessee. The Charter School Agreement currently allows 108 students in kindergarten.

Basis of Accounting

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

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

Financial Statements

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

The school-wide financial statements of the School have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting. Revenues under the modified accrual basis are recognized when measurable and available and expenditures are recognized when the related liability is incurred. Accordingly,

revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due.

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

School-wide Financial Statements

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

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

GASB 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 School's policy to utilize restricted assets first, then unrestricted assets as needed.

The school-wide statement of activities reports both the gross and net cost of the School's functions. The functions are also supported by general government revenues (general revenues are primarily made up of district Basic Education Program ("BEP") funding and contributions to the general fund). The statement of activities reduces gross expenses by related function revenues,

operating and capital grants. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue. The School allocated indirect costs between functions.

Fund Financial Statements

The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund 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 School's only major fund is the General Fund, which is also the School's primary operating fund. All of the School'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 School has implemented Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions ("GASB 54"). GASB 54 classifies governmental fund balances as: nonspendable, restricted, committed, assigned or unassigned based on the level of constraints on the fund balances. When expenditures are incurred in which both restricted and unrestricted funds are available for use, it is the School's policy to spend restricted funds first, then unrestricted funds. When expenditures have been incurred for purposes in which committed, assigned, or unassigned funds are available, it is the School's policy to spend funds in the following order, committed, then assigned, and lastly unassigned funds. The classifications of fund balances are defined as follows:

Nonspendable

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

Restricted

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

Committed

This classification consists of fund balances that can only be used for specific purposes established by formal action of the School's Board of Directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance

commitments can only be removed by the same process of the same body employed to previously commit those amounts.

Assigned

This classification consists of fund balances that the School intends to use for specific purposes not classified as nonspendable, restricted or committed. The School gives the authority to assign amounts to specific purposes to the School's executive director and personnel, under supervision of the executive director, tasked with financial recording responsibilities.

Unassigned

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

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 School considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents. As of June 30, 2014, the School's cash and cash equivalents were deposited in one financial institution. The School routinely maintains deposit balances in excess of federally insured limits with certain financial institutions. There were no uninsured balances at June 30, 2014. The School's financial institution is a member of the Tennessee Bank Collateral Pool, which helps the School to mitigate custodial risk. The School does not have a formal policy for 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 School follows the practice of capitalizing all expenditures for property and equipment items over $5,000.

Estimated useful lives of capital assets are as follows:

Computers	3 years
Furniture	5 years

Grants

The School 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School as of June 30, 2014.

Income Taxes

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

Accounting principles generally accepted in the United States of America require management to evaluate the tax positions taken by the School and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (“IRS”). Management has analyzed the tax positions taken by the School, and has concluded that as of June 30, 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 School's federal information and income tax returns for all tax years are subject to examination by the IRS.

Budgetary Comparison Statement

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

NOTE 3: CAPITAL ASSETS

Capital assets activity for governmental activities for the period from March 31, 2011 to June 30, 2014 was as follows:

	March 31, 2011	Additions	Disposals	June 30, 2014
Furniture	$ -	$ 14,180	$ -	$ 14,180
Computers	-	23,168	-	23,168
	-	37,348	-	37,348
Accumulated depreciation	-	(6,886)	-	(6,886)
	$ -	$ 30,462	$ -	$ 30,462

Depreciation expense was charged to governmental activities for the period from March 31, 2011 to June 30, 2014 as follows:

Student instruction	$ 6,886

NOTE 4: LEASES

The Schools leases its facility used to provide educational services under an operating lease arrangement with the Tennessee Charter School Center. The lease terminates on June 30, 2015. The School also leases copier equipment under operating leases.

Rent expense under all operating leases was $114,765 for the period from March 31, 2011 to June 30, 2014.

Future minimum rental payments required under non-cancellable operating leases are comprised of payments that total $114,768 for the year ended June 30, 2015.

NOTE 5: RETIREMENT PLANS

SETHEEPP Plan Description (for teacher-certified Employees)

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

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

Funding Policy

Teacher participants are required to contribute 5% of their salary to the SETHEEPP. The employer contribution rate is based on the rate for Davidson County Schools which is established at an actuarially determined rate. The employer rate for the period ended June 30, 2014 was 8.88% of annual covered payroll.

Metro Plan Description (for Non-teacher certified employees)

The School 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 was 17.117% of annual covered payroll.

The School's contributions for both teachers and non-teachers are nonrefundable to either the School or its employees. The School's expense, related to both plans for the period from March 31, 2011 to June 30, 2014 totaled $43,722.

NOTE 6: RISK MANAGEMENT

The School 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 School purchases commercial insurance. The School has had no settled claims resulting from these risks that exceeded its commercial coverage during the period ended June 30, 2014.

NOTE 7: 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 School is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

NOTE 8: SUBSEQUENT EVENT

On December 16, 2014, the board of directors approved a lease agreement for a school building which will serve as its primary facility commencing with the 2015-2016 school year.

SUPPLEMENTARY INFORMATION

Nashville Classical Charter School
Schedule of Expenditures of Federal Awards and State Financial Assistance

For the Period from March 31, 2011 to 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	**$**	**20,720**
National School Lunch Program	10.555	N/A		**35,630**
National School Afterschool Snacks Program	10.555	N/A		**13,348**
TOTAL PROGRAM 10.555				**48,978**
U.S. DEPARTMENT OF EDUCATION				
Public Charter Schools Program (Passed through Tennessee Department of Education)	84.282A	N/A		**300,000**
Title 1 Grants to Local Educational Agencies (Passed through Tennessee Department of Education and Metropolitan Nashville Public Schools)	84.010	N/A		**27,653**
TOTAL FEDERAL AWARDS			**$**	**397,351**
STATE FINANCIAL ASSISTANCE				
NONE	N/A	N/A		**-**
TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			**$**	**397,351**

Reconciliation of Expenditures by Fiscal Year		
FEDERAL AWARDS BY FISCAL YEAR ENDED		
June 30, 2013	$	100,000
June 30, 2014		297,351
TOTAL FEDERAL AWARDS	$	397,351

Note on Basis of Presentation

The Schedule of Expenditures of Federal Awards and State Financial Assistance includes the grant activity of Nashville Classical 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 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 period from March 31, 2011 (Date of Inception) to June 30, 2014, 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 22, 2014.

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 School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CARR, RIGGS & INGRAM, LLC

Nashville, Tennessee
December 22, 2014

FINDINGS

No findings for the period from March 31, 2011 (Date of Inception) to June 30, 2014.