



## Purpose Preparatory Academy

*Audit Planning for the  
Year Ending June 30, 2019*

### Our Mission

Through rigorous curriculum, high-quality instruction, and positive character development, Purpose Preparatory Academy Charter School ensures that all kindergarten through grade four students achieve the academic skills, knowledge, and ethical foundation to be set on the path to college.



**CROSSLIN**  
CERTIFIED PUBLIC ACCOUNTANTS





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August 8, 2019

To the Finance Committee and Board of Directors  
of Purpose Preparatory Academy  
Nashville, Tennessee

Dear Board Members:

Thank you very much for the opportunity to continue to serve as your independent auditors and advisors. We are pleased to provide an overview of our 2019 audit plan for Purpose Preparatory Academy ("Purpose Prep"). This report outlines the scope of our work and what we see as the key considerations affecting the 2019 audit. This communication is a method to validate our understanding of these matters, confirm your current year expectations, and align our efforts with your expectations.

Purpose Prep and Crosslin, PLLC ("Crosslin") share a commitment to quality. We strive to understand your operations and emerging issues in order to mitigate risk. Our commitment to quality means we bring technically qualified people to the engagement and reflect quality in every aspect of our work.

We appreciate this opportunity to be of service to Purpose Prep. If you have any questions or comments, please call me or Katie Farris, Audit Supervisor, at (615) 320-5500. Thank you again and we look forward to working with you and everyone at Purpose Prep.

Very truly yours,

A handwritten signature in black ink that reads "Erica D. Saeger". The signature is written in a cursive, flowing style.

Erica D. Saeger  
Audit Principal



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## ***Audit Approach and Plan***

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We are pleased to continue to serve as independent auditors and business advisors for Purpose Preparatory Academy. The following report describes our plan for the audit of the financial statements for the year ending June 30, 2019, and discusses other services provided to Purpose Prep. This report is designed to provide you with a summary of our overall objectives for the audit and the nature and scope of the planned audit work.

Overall, our audit strategy involves extensive audit principal and supervisor involvement in all aspects of the planning and execution of the engagement. Our strategy is based on our understanding of the school, which we gained through our prior year audit and experience with similar charter school entities as well as information gathered during our engagement planning procedures. Our audit strategy includes the following:

- Focus resources on higher risk areas and other areas of concern as identified by management, the Finance Committee, or the Board.
- Consider inherent risk within the entity - i.e., the susceptibility of the financial statement misstatement due to material error or fraud, before recognizing the effectiveness of the control systems.
- Consider the control environment and the possibility that the control systems and procedures may fail to prevent or detect a material error or fraud.
- Assess internal controls in determining the degree of detail testing required.
- Consider information about systems and the computer environment in which financial records and related systems operate.
- Consider recent results of operations and significant current year events.
- Conduct an audit of the annual financial statements of Purpose Prep as of and for the period ended June 30, 2019 in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Consult regarding accounting and reporting matters as needed throughout the year.
- Ensure that those charged with governance are appropriately informed of financial reporting matters as required by professional standards.



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## ***Audit Approach and Plan (Continued)***

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The key element of effective audit planning is a thorough understanding of operations. This includes the operating environment, accounting and internal accounting control structure, and financial position. Our history and experience with Purpose Prep and similar charter schools help us capture the knowledge to develop a detailed understanding of these elements. Therefore, we can effectively identify the nature of significant account balances/transaction classes, assess risk, and design audit tests.

Our audit approach is tailored to meet the specific needs of each customer. We have the leverage of our experience base and build upon our understanding of operations. As conditions change, we will continue to develop our understanding of critical audit areas through comprehensive audit planning and risk assessment.

Risk assessment is the essential element in the audit planning process. When reliable risk-assessment decisions are made in the initial planning process, the amount of testing can be correlated with each audit area's relative risk. The result: a more focused, efficient and effective audit.

The following discussion of comprehensive audit planning and risk assessment is necessarily presented in a somewhat static manner. Auditing, however, is a dynamic process. Our audit plan may change during the course of the audit as new information and circumstances come to our attention. Information obtained during a current audit may also affect the planning for future audits. In fact, we generally begin planning the subsequent year's audit at the conclusion of the current year audit. As a result, audit planning is appropriately approached as a continuous process.

In general, our audit will be performed in three phases, which are described below.

### **Phase I - Planning**

Our Phase I audit procedures include the following:

- Hold an entrance conference with appropriate management personnel.
- Coordinate planning efforts and develop testing methods.
- Complete and submit prepared by client ("PBC") schedules via Suralink.
- Review correspondence files, budget and related material, organization charts, manuals and programs, governing Board minutes, financial and other management information, financial statements, and other internal documents.
- Apply preliminary analytical procedures.



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## ***Audit Approach and Plan (Continued)***

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- Identify through inquiry and observation the accounting control procedures that prevent or detect errors and fraud.
- Document the internal control structure and the flow of transactions in accordance with U.S. Generally Accepted Auditing Standards (“GAAS”) and *Government Auditing Standards* (“GAS”).
- Conduct fraud risk interviews (commonly referred to as SAS 99 interviews) with those charged with governance.
- Make preliminary assessments of control risk and begin planning our substantive procedures.

### **Phase II - Substantive Procedures**

During Phase II, we perform substantive audit procedures. The results of this work may require us to propose adjustments to account balances, recommend additional disclosures in the financial statements, and make certain comments regarding operations. Our Phase II audit procedures include the following:

- Perform procedures to gather evidence to support management assertions in the financial statements.
- Confirm material account balances and/or transactions with third parties.
- Apply a mixture of analytical procedures and tests of details to achieve audit objectives related to a particular assertion. Some of our analytical procedures can be relied on to significantly reduce or eliminate test of details. At a minimum, our analytical tests will include comparing statement of net position account balances to the prior year and our expectations and comparing actual revenues and expenses/expenditures to prior year’s revenues and expenses/expenditures and to budgeted amounts and our expectations.
- Hold progress meetings with the appropriate management personnel.
- Subject all audit tests, resulting conclusions, and working papers to a rigorous in-house quality control review.



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## ***Audit Approach and Plan (Continued)***

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### **Phase III - Reporting and Communication**

Communication is an essential part of an effective audit. As your independent auditors, we want to interact with you as much as possible, not only during the audit, but throughout the year as well. We welcome your questions and comments. During the course of the audit, we will continually meet with financial management personnel to provide a status of the engagement. The status report will address the progress of our procedures, any problems encountered, open items, and any other issues we believe need to be brought to the attention of management.

Additionally, we will communicate with the Finance Committee and Board as required by professional standards and as necessary to meet our requirements.

Summary of the reporting and communication steps is as follows:

- Discuss all adjusting journal entries proposed by us, if any, with appropriate management personnel.
- Hold exit conference with management.
- Issue draft and final audit reports and management letter, if applicable.
- Present the audit report, results of the audit, and management letter, if applicable, to those charged with governance.
- File reports with the Metropolitan Government of Nashville and Davidson County and State of Tennessee Comptroller of the Treasury, as appropriate.



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## ***Areas of Audit Significance***

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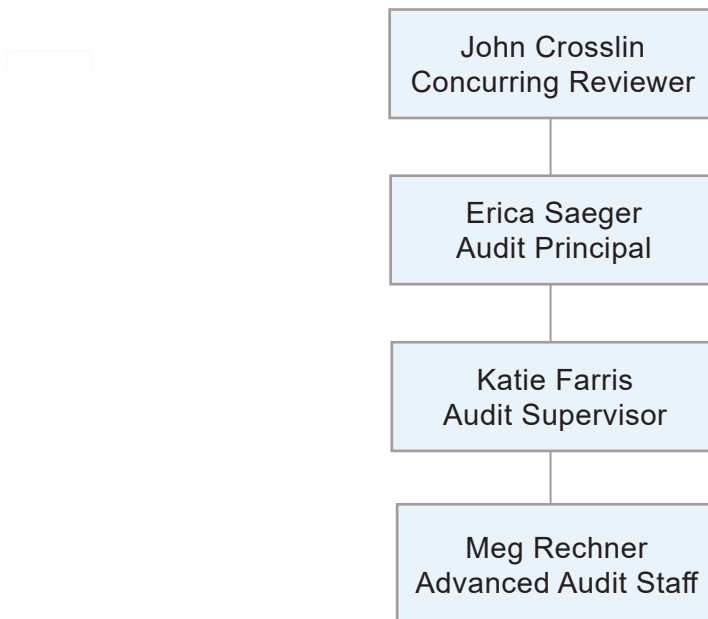
During our audit, we will focus significant resources on the following account balances, related transaction streams and operating matters:

- Cash and cash equivalents
- Capital assets
- Classification of net position
- BEP, other program and general revenues
- Grants and similar programs
- Expenses for program and supporting services, accounts payable and other liabilities (including new debt or changes in debt)
- Financial statement disclosures and presentation, including state compliance

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## ***Customer Service Team***

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## ***Audit Timeline***

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<b><i>TASK</i></b>	<b><i>TIMING</i></b>
Understand the Operations	Ongoing
Assess Overall Controls	Ongoing
Planning Communication	Current
Phase I - Planning and Risk Assessment	September 2019
Phase II - Commencement Meeting with Management	September 2019
Phases II and III - Substantive Testing and Reporting	September/October 2019
Anticipated Issuance of Financial Statements and Reports	December 2019



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## ***New State of Tennessee Requirement for Charter Schools***

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Per the letter from the State dated May 23, 2019, section 49-13-127, Tennessee Code Annotated, requires an annual audit of all books and records, including internal school activity and cafeteria funds, of charter schools. The Comptroller of the Treasury, through the Department of Audit, is responsible for ensuring that such audits are performed. As provided by statute, charter schools may, with the approval of the Comptroller, contract with an independent certified public accountant of their choice to perform the audit, subject to approval by this office.

As of the fiscal year ending June 30, 2019, a uniform contract to audit accounts should be executed separately for charter schools, and the charter schools' internal school funds. These contracts must be executed as soon as possible through the Contract and Report System (CARS), which can be accessed on the web at <https://apps.cot.tn.gov/CARS/>. In order to execute a separate contract for the charter schools' internal school funds, your organization should create a new account in CARS for the charter schools' internal school funds. Please click on the "Sign Up for a New Account" link at the above site to create an account for the charter schools' internal school funds in addition to the existing account for the charter school. After the contract has been processed and approved, an email will be sent to you and the independent certified public accounting firm that you have selected to perform the audit. The email will notify you that the contract has been finalized and is accessible through CARS.

The audit of Purpose Prep's internal school funds is required, by the State, to be a separate engagement from the audit of Purpose Prep and will be reported on separately.

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## ***Changes in Accounting Standards***

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The government and standard-setting bodies are issuing guidance at an unprecedented pace. Crosslin is constantly receiving, reviewing, and searching for the latest authoritative literature, in part through its involvement with the AICPA's Government Audit Quality Center and the Government Finance Officers Association ("GFOA"), including GFOA's Special Review Committee. We have had discussions with Purpose Prep's management to ensure proper understanding and application of pronouncements, standards, interpretations, and addenda that arise and will continue to have these discussions with management to implement all new standards as they arise. We have included both new and upcoming accounting pronouncements on the subsequent pages for informational purposes.



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## ***Changes in Accounting Standards (Continued)***

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Several accounting pronouncements and new compliance requirements may apply to Purpose Prep in the relative near term. Following is a list of such items:

- **GASB Statement No. 83, Certain Asset Retirement Obligations**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
- **GASB Statement No. 84, Fiduciary Activities**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.
- **GASB Statement No. 87, Leases**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- **GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
- **GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
- **GASB Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.
- **GASB Statement No. 91, Conduit Debt Obligations**  
**Effective Date:** The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.



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## ***Fraud Discussion***

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SAS 99, *Consideration of Fraud in a Financial Statement Audit*, was issued by the AICPA to heighten the awareness of auditors to the potential for fraud when planning and executing audits. While SAS 99 emphasizes the need for increased professional skepticism throughout the audit engagement, it does not change our responsibilities as auditors. Under SAS 99, we are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements caused by error or fraud. However, the extent of required procedures related to the detection of fraud has increased. We approach all audits with an understanding that fraud could occur in any organization at any time and could be perpetrated by anyone.

### **Gathering Information Needed to Identify Risks of Material Misstatement Due to Fraud**

- Engagement team brainstorming discussion.
- Inquiries of management, accounting personnel, and other personnel not directly involved in financial reporting.
- Investigation of unusual or unexpected relationships identified through various analytical procedures.

### **Responding to Identified Fraud Risks**

- Design of the nature, timing, and extent of audit procedures.
- Use of experienced personnel to audit areas of exposure.
- Testing of items below established scopes.

### **Procedures to Address the Risk of Management Override of Internal Controls**

- Review of accounting estimates for bias, including a retrospective review of significant prior year estimates.
- Evaluation of business rationale for significant unusual transactions.
- Inspect and analyze reasonableness of manual adjusting journal entries made during the year.

### **Evaluating Audit Evidence**

- Being cognizant of fraud risk factors throughout audit.
- Being mindful of discrepancies in the accounting records, conflicting or missing audit evidence, and/or problematic or unusual relationships between the auditors and management.