



Purpose Preparatory School

Results of the 2018 Audit



PURPOSE
Preparatory Academy

CROSSLIN
CERTIFIED PUBLIC ACCOUNTANTS





January 7, 2019

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

Dear Board Members:

Thank you for the opportunity to continue to serve as independent auditors and to provide our report on the results of the 2018 financial statement audit of Purpose Preparatory School.

A direct line of communication between our Firm and those charged with governance is essential to the proper exercise of our respective responsibilities. The accompanying report is intended solely for the use of the Finance Committee and Board of Directors and management and presents information regarding the audit and certain other information which we believe will be of assistance to you. We appreciate this opportunity to communicate the contents of this report with you. If you have any questions, please call me at (615) 320-5500.

We would like to take this opportunity to express our appreciation for the assistance and courtesy extended to us by your employees. We appreciate working with you, and we look forward to a continued relationship with Purpose Preparatory School.

Very truly yours,

CROSSLIN, PLLC

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



Report on Results of the June 30, 2018 Audit

Crosslin, PLLC, has completed our audit of the financial statements of Purpose Preparatory School (the "School") as of and for the year ended June 30, 2018 and have issued our unmodified report thereon dated January 7, 2019.

The State of Tennessee has oversight responsibility and approved our audit engagement through the Comptroller of the Treasury's standard Contract to Audit Accounts.

We have met the auditing requirements of federal, state and local governments, and the audited financial statements were filed with the state in accordance with the required deadline.

The following discussion contains information related to the audit that is required by professional standards, and certain other information which we hope will be of assistance to you.

Independence

Our professional standards require that we communicate at least annually with you regarding all relationships between Crosslin, PLLC ("Crosslin") and the School that, in our professional judgment, may reasonably be thought to bear on our independence.

We are not aware of any relationships between Crosslin and the School that, in our professional judgment, may reasonably be thought to bear on our independence that have occurred during the period from July 1, 2017 through the date of this letter.

We confirm that as of January 7, 2019, we are independent accountants with respect to the School in the performance of all of our services, within the requirements of both the American Institute of Certified Public Accountants and *Government Auditing Standards*.

Engagement Personnel

The following is the service team for 2018:

John Crosslin
Erica Saeger
Katie Farris
Meg Rechner

Concurring Reviewer
Audit Principal
Audit Supervisor
Audit Team Member



Our Responsibilities Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements of the governmental activities, each major fund and the aggregate remaining fund information are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and *Government Auditing Standards*. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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.

Planned Scope and Timing of the Audits

We performed the audit according to the planned scope and timing agreed upon with management, designed to ensure a timely filing with the state.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's allocations of certain joint activities to each fund in the fund financial statements and the allocation of certain joint expenses to functional categories.
- Estimates of the useful lives of capital assets
- The collection of receivables
- Reasonableness of the net pension liability (asset)

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.



Alternative Accounting Treatments

We had no discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices related to material items including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies.

Management Consultations with Other Independent Accountants

In some cases, management may consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion.” If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Difficulties Encountered in Performing the Audits

We encountered no significant difficulties in performing and completing our audits.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. No such disagreements arose during the course of our audit.



Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on an organization's financial reporting process (that is, cause future financial statements to be materially misstated).

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has reviewed all such proposed adjustments based on authoritative literature and has corrected all such misstatements. Detail of the audit adjustments are included in Appendix A.

Other Material Written Communications

Included as Appendix B is the management representation letter, which we requested from management for fiscal year 2018.

Included as Appendix C is the management letter for fiscal year 2018.

Financial Statement Areas of Audit Emphasis

- Cash and cash equivalents
- Receivables
- Capital assets
- Classification of net position
- Pension liability and disclosures
- BEP, other programs, and general revenues
- Grants and similar programs
- Expenses for program and supporting services, accounts payable, and other liabilities
- Financial statement disclosures and presentation, including state compliance



Recent Accounting Pronouncements

The government and standard-setting bodies are issuing guidance at an unprecedented pace. Crosslin, PLLC 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"). We routinely interface with 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.

The following are significant accounting pronouncements that may apply to the School in the upcoming years:

Upcoming pronouncements:

- **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.

Purpose Preparatory Academy
Year End: June 30, 2018
Adjusting Journal Entries

Number	Date	Type	Name	Account No	Reference	Debit	Credit
1	6/30/2018	N	Customer Deposits	12105	G-2		(53,070.00)
1	6/30/2018	N	Buildings and Improvements	13300	G-2	53,070.00	
To move retainage escrow deposits to capitalized cost of constructed facility.							
2	6/30/2018	N	Other Deferred Revenue	22200	QQ	18,000.00	
2	6/30/2018	N	Custom Fundraising - 4	44570.4	QQ		(18,000.00)
To recognize PY deferred revenue as revenue in FY18.							
3	6/30/2018	N	Medical Insurance	207	CC-1		(31,125.00)
3	6/30/2018	N	Accrued Accounts Payable	21101	CC-1	31,125.00	
To reverse PY accrual for May 2017 benefits billing paid in FY18.							
4	6/30/2018	N	Payments to Schools - Breakfast	342	CC-1		(12,931.00)
4	6/30/2018	N	Payments to Schools - Lunch	343	CC-1		(22,369.00)
4	6/30/2018	N	Payments to Schools - Other	344	CC-1		(6,106.00)
4	6/30/2018	N	Accrued Accounts Payable	21101	CC-1	41,406.00	
To reverse accrual & double-booked expense for May 2018 food service.							
5	6/30/2018	N	Retained Earnings	39100	WW	3.00	
5	6/30/2018	N	Other Local Revenue - Uncategorized	44999	WW		(3.00)
To make beginning Net Position agree to PY report for rounding differences.							
6	6/30/2018	N	Pension expense	205	DD-2		(29,971.00)
6	6/30/2018	N	Net Pension Asset (Liability) Account	11889	DD-2	22,793.00	
6	6/30/2018	N	Other Current Assets	11890	DD-2	58,343.00	
6	6/30/2018	N	Deferred Compensation Payable	21450	DD-2	4,670.00	
6	6/30/2018	N	Other Deferred Revenue - 1	22221	DD-2		(55,835.00)
To record pension amounts per GASB 68 for the TCRS and Metro Plans as of 6/30/18.							
7	6/30/2018	R	USDA - School Lunch Program	47111	10-1. 1	30,248.00	
7	6/30/2018	R	Breakfast	47113	10-1. 1		(20,971.00)
7	6/30/2018	R	USDA - Other	47114	10-1. 1		(9,277.00)
To reclassify reimbursements from Lunch to Breakfast and Other for report purposes.							
8	6/30/2018	N	Due to Other Funds	21500	CC		(2,622.00)
8	6/30/2018	N	Donations - Private	44570.2	CC	2,622.00	
To adjust contribution revenue and account 21500 for funds collected on behalf of and disbursed to the Harmony Memorial.							
9	6/30/2018	N	Interest on Notes	604	212	6,453.00	
9	6/30/2018	N	Accounts Payable	21100	212		(6,453.00)
Client requested entry to offset bill credit #CR123117 that was posted in error.							
10	6/30/2018	N	State Retirement	204	212		(1,725.00)
10	6/30/2018	N	Prior Year Expense - not accrued	384	212	5,198.00	
10	6/30/2018	N	Retirement Contributions	21330	212		(3,473.00)
Client requested entry to true up retirement contributions payable as of 6/30/18.							
						273,931.00	(273,931.00)
Net Income (Loss)				198,639.00			



January 7, 2019

Crosslin, PLLC
The Astoria
3803 Bedford Avenue, Suite 103
Nashville, Tennessee 37215

This representation letter is provided in connection with your audit of the financial statements of Purpose Preparatory Academy (“PPA” or the “School”), which comprise the respective financial position of the governmental activities and each major fund as of June 30, 2018, and the respective changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 11, 2014, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements or in the schedule of findings and questioned costs.
- 8) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 9) Guarantees, whether written or oral, under which the School is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 10) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the School from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 11) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 12) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 13) We have no knowledge of any fraud or suspected fraud that affects the School and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- 14) We have no knowledge of any allegations of fraud or suspected fraud affecting the School's financial statements communicated by employees, former employees, regulators, or others.
- 15) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 16) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 17) We have disclosed to you the identity of the School's related parties and all the related party relationships and transactions of which we are aware.

Government-specific

- 18) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 20) The School has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and legal and contractual provisions for reporting specific activities in separate funds.
- 22) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 24) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 25) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 26) As part of your audit, you assisted with preparation of the financial statements and related notes, and schedule of expenditures of federal awards and state financial assistance. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, and schedule of expenditures of federal awards and state financial assistance.
- 27) The School has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 28) The School has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 29) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 30) The financial statements properly classify all funds and activities, in accordance with GASB Statement No. 34.

- 31) All funds that meet the quantitative criteria in GASB Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 32) Components of net position (net investment in capital assets; restricted; and unrestricted), and components of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 33) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 34) Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been reduced to their estimated net realizable value.
- 35) Provisions for uncollectible receivables have been properly identified and recorded.
- 36) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 37) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 38) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 39) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 40) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 41) We have appropriately disclosed the School's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 42) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 43) We have appropriately recorded and disclosed the amounts and information related to pensions as required by Governmental Accounting Standards Board (GASB) Statement No. 68.
- 44) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 45) With respect to the supplementary information:
 - a) We acknowledge our responsibility for presenting the supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of

measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

- b) If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

46) Expenditures of federal awards were below the \$750,000 threshold for the fiscal year ended June 30, 2018, and we were not required to have an audit in accordance with Uniform Guidance.



Signed: Lagra Newman
Title: Founder and Head of School



January 7, 2019

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

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Purpose Preparatory Academy (the "School") as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitation 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.

However, as discussed below, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated January 7, 2019, on the financial statements of the School. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:



ACCOUNT RECONCILIATION & YEAR-END CLOSE

Observation

During our audit, we noted that the balance of accrued accounts payable included an entry made in fiscal year 2017 for the May 2017 benefits billing, which was paid in fiscal year 2018. This accrual should have been reversed in fiscal year 2018 when the payment was made. This resulted in an overstatement of accrued accounts payable and employee benefits expense of approximately \$31,000.

During our review of accounts payable and our search for unrecorded liabilities, we also noted that the balance of accrued accounts payable included an entry to accrue the May 2018 invoice for food service expense. However, this invoice had already been recorded to accounts payable. This resulted in an overstatement of accrued accounts payable and food service expense of approximately \$41,000.

During our review of prepaid expenses and deposits, we noted that the balance of deposits included retainage escrow deposits made in fiscal year 2017 in relation to the construction of the facility expansion. The facility expansion project was completed and placed in service in fiscal year 2018 and the retainage escrow deposits should have been removed from deposits at that time and included in the capitalized cost of the facility expansion. This resulted in an audit adjustment of approximately \$53,000.

Recommendation and Benefit

We recommend that the School update its process for account reconciliations and year-end close procedures to include a review of accrued expenses and prepaid expenses/deposits. The review should include following up on the current status of balances recorded in a prior period. This additional control will reduce the risk of adjustments, misclassifications, and potential GAAP departures.

Management's Response

Management agrees with these recommendations, and we will work with our back-office provider, Edtec Inc., to amend procedures regarding year-end transactions, specifically prior fiscal year accruals, prepaid expenses and deposits. We will include supervisory review and approval during fiscal year end to ensure revenues and/or expenses are not over/understated and to prevent any adjustments.



* * * * *

We believe that the implementation of these recommendations will provide the School with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This communication is intended solely for the information and use of management, the Board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin, PLLC

Nashville, Tennessee
January 7, 2019

