MARTHA O'BRYAN CENTER, INC.

Financial Statements and Supplemental Information

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

MARTHA O'BRYAN CENTER, INC.

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Roster of Board of Directors and Executive Staff

As of June 30, 2018

LBMC MAKE A GOOD BUSINESS BETTER

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Martha O'Bryan Center, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Martha O'Bryan Center, Inc. (the "Center") which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion 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 of 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Martha O'Bryan Center, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Martha O'Bryan Center, Inc. as of and for the year ended June 30, 2017, were audited by other auditors whose report dated December 22, 2017 expressed an unmodified opinion on those statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019 on our consideration of the Center'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 solely 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 the effectiveness of 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 Center's internal control over financial reporting and compliance.

LBMC, PC

Brentwood, Tennessee
March 28, 2019

MARTHA O'BRYAN CENTER, INC.

Statements of Financial Position

June 30, 2018 and 2017

Assets

	2018	2017
Cash and cash equivalents	$ 2,172,948	$ 1,908,917
Government grants receivable	577,006	358,514
Other receivables	79,318	208,942
Unconditional promises to give, net	262,000	1,433,734
Prepaid expenses	6,078	115,592
Property and equipment, net	1,878,384	2,037,296
	$ 4,975,734	$ 6,062,995

Liabilities and Net Assets

	2018	2017
Liabilities:		
Accounts payable	$ 109,785	$ 289,840
Accrued liabilities	465,506	519,235
Loan payable to Martha O'Bryan Foundation	39,718	100,000
Line of credit	600,000	400,000
Total liabilities	1,215,009	1,309,075
Net assets:		
Unrestricted:		
Undesignated	2,953,531	2,520,593
Total unrestricted	2,953,531	2,520,593
Temporarily restricted	807,194	2,233,327
Total net assets	3,760,725	4,753,920
	$ 4,975,734	$ 6,062,995

See accompanying notes to the financial statements.

MARTHA O'BRYAN CENTER, INC.

Statements of Activities

Years ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenues:						
Government grants	$ 2,211,124	$ -	$ 2,211,124	$ 2,169,755	$ -	$ 2,169,755
Donations and private grants	2,588,989	869,767	3,458,756	1,918,254	2,209,589	4,127,843
Program fees and subsidies	9,668,460	-	9,668,460	7,827,652	-	7,827,652
Future year contributions	-	262,000	262,000	-	604,591	604,591
In-kind donations	132,396	-	132,396	270,287	-	270,287
Interest and miscellaneous	121,274	-	121,274	60,848	-	60,848
Net assets released from restrictions:						
Restrictions satisfied by incurrence of costs	1,445,401	(1,445,401)	-	723,826	(723,826)	-
Expiration of time restrictions	1,112,499	(1,112,499)	-	1,402,843	(1,402,843)	-
Total support and revenues	17,280,143	(1,426,133)	15,854,010	14,373,465	687,511	15,060,976
Program services:						
Charter schools	10,323,961	-	10,323,961	8,577,907	-	8,577,907
Child development	106,308	-	106,308	732,148	-	732,148
Youth services	2,457,970	-	2,457,970	1,993,174	-	1,993,174
Community services	216,731	-	216,731	267,067	-	267,067
Family education	1,165,210	-	1,165,210	1,364,716	-	1,364,716
Total program services	14,270,180	-	14,270,180	12,935,012	-	12,935,012
Supporting services:						
Management and general	2,247,785	-	2,247,785	1,781,863	-	1,781,863
Fundraising	329,240	-	329,240	349,985	-	349,985
Total supporting services	2,577,025	-	2,577,025	2,131,848	-	2,131,848
Total expenses	16,847,205	-	16,847,205	15,066,860	-	15,066,860
Change in net assets	432,938	(1,426,133)	(993,195)	(693,395)	687,511	(5,884)
Net assets - beginning of year	2,520,593	2,233,327	4,753,920	3,213,988	1,545,816	4,759,804
Net assets - end of year	$ 2,953,531	$ 807,194	$ 3,760,725	$ 2,520,593	$ 2,233,327	$ 4,753,920

See accompanying notes to the financial statements.

MARTHA O'BRYAN CENTER, INC.

Statement of Functional Expenses

Year ended June 30, 2018

	Program Services						Supporting Services			
	Charter Schools	Child Development	Youth Services	Community Services	Family Education	Total	Management and General	Fundraising	Total	Grand Total
Salaries	$ 5,742,454	$ 75,102	$ 1,326,948	$ 66,088	$ 837,501	$ 8,048,093	$ 965,486	$ 188,954	$ 1,154,440	$ 9,202,533
Employee benefits	1,114,850	7,368	91,449	6,996	70,543	1,291,206	68,397	20,551	88,948	1,380,154
Payroll taxes	419,799	5,488	97,715	4,712	60,877	588,591	66,874	13,396	80,270	668,861
Total personnel costs	7,277,103	87,958	1,516,112	77,796	968,921	9,927,890	1,100,757	222,901	1,323,658	11,251,548
Professional services	301,183	36	27,474	36	50,853	379,582	127,060	23,616	150,676	530,258
Insurance	69,152	-	1,142	-	-	70,294	28,795	-	28,795	99,089
Food and supplies	358,838	6,107	149,549	6,423	24,496	545,413	62,888	40,026	102,914	648,327
Client assistance	-	-	9,013	-	91,379	100,392	445	-	445	100,837
Communications	7,826	-	6,836	-	12,968	27,630	51,901	106	52,007	79,637
Utilities	26,019	-	-	-	2,353	28,372	53,617	-	53,617	81,989
Building and ground maintenance	-	-	16,873	-	1,997	18,870	37,561	-	37,561	56,431
Equipment maintenance and repair	320	-	7,939	-	6,327	14,586	61,430	12,877	74,307	88,893
Vehicles and travel	748,580	-	29,975	-	3,420	781,975	17,361	648	18,009	799,984
Professional development	80,053	-	18,857	-	34	98,944	27	-	27	98,971
Subscriptions	-	-	243	-	-	243	4,689	7,164	11,853	12,096
Fees, licenses, and miscellaneous	1,017,541	12,207	468	80	2,462	1,032,758	82,667	21,902	104,569	1,137,327
Special education services	58,453	-	-	-	-	58,453	-	-	-	58,453
Technology services	15,664	-	-	-	-	15,664	-	-	-	15,664
In-kind gifts	-	-	-	132,396	-	132,396	-	-	-	132,396
Instructional	253,609	-	-	-	-	253,609	-	-	-	253,609
Afterschool programming	-	-	673,489	-	-	673,489	-	-	-	673,489
Provision for doubtful accounts	-	-	-	-	-	-	461,431	-	461,431	461,431
Total expenses before depreciation	10,214,341	106,308	2,457,970	216,731	1,165,210	14,160,560	2,090,629	329,240	2,419,869	16,580,429
Depreciation	109,620	-	-	-	-	109,620	157,156	-	157,156	266,776
Total	$ 10,323,961	$ 106,308	$ 2,457,970	$ 216,731	$ 1,165,210	$ 14,270,180	$ 2,247,785	$ 329,240	$ 2,577,025	$ 16,847,205

See accompanying notes to the financial statements.

MARTHA O'BRYAN CENTER, INC.

Statement of Functional Expenses

Year ended June 30, 2017

	Program Services						Supporting Services			
	Charter Schools	Child Development	Youth Services	Community Services	Family Education	Total	Management and General	Fundraising	Total	Grand Total
Salaries	$ 4,633,934	$ 398,722	$ 1,341,418	$ 82,952	$ 997,012	$ 7,454,038	$ 1,034,446	$ 198,563	$ 1,233,009	$ 8,687,047
Employee benefits	922,389	35,382	83,429	6,071	84,189	1,131,460	85,459	16,291	101,750	1,233,210
Payroll taxes	341,755	29,753	100,360	5,998	73,654	551,520	70,896	14,003	84,899	636,419
Total personnel costs	5,898,078	463,857	1,525,207	95,021	1,154,855	9,137,018	1,190,801	228,857	1,419,658	10,556,676
Professional services	165,338	385	9,191	-	74,540	249,454	159,849	3,733	163,582	413,036
Insurance	57,526	-	-	-	-	57,526	29,784	-	29,784	87,310
Food and supplies	517,669	116,626	125,244	8,952	36,750	805,241	54,748	65,939	120,687	925,928
Client assistance	-	-	10,156	-	42,220	52,376	1,676	-	1,676	54,052
Communications	9,981	1,378	3,787	1	8,926	24,073	45,553	13,232	58,785	82,858
Utilities	23,848	-	-	-	-	23,848	66,792	-	66,792	90,640
Building and grounds maintenance	673,481	2,619	2,789	-	3,148	682,037	38,806	3,639	42,445	724,482
Equipment maintenance and repair	-	316	1,137	326	7,802	9,581	61,404	12,214	73,618	83,199
Vehicles and travel	827,617	1,962	39,090	145	11,027	879,841	22,933	3,747	26,680	906,521
Professional development	66,625	2,488	226,069	-	1,739	296,921	1,027	-	1,027	297,948
Subscriptions	-	248	990	-	345	1,583	9,917	7,108	17,025	18,608
Fees, licenses, and miscellaneous	189,973	627	5,050	638	3,424	199,712	42,404	7	42,411	242,123
Special education services	17,799	-	-	-	-	17,799	-	-	-	17,799
Technology services	20,069	-	-	-	-	20,069	-	-	-	20,069
In-kind gifts	-	116,150	-	145,637	-	261,787	-	-	-	261,787
Provision for doubtful accounts	-	-	-	-	-	-	-	-	-	-
Total expenses before depreciation	8,468,004	706,656	1,948,710	250,720	1,344,776	12,718,866	1,725,694	338,476	2,064,170	14,783,036
Depreciation	109,903	25,492	44,464	16,347	19,940	216,146	56,169	11,509	67,678	283,824
Total	$ 8,577,907	$ 732,148	$ 1,993,174	$ 267,067	$ 1,364,716	$ 12,935,012	$ 1,781,863	$ 349,985	$ 2,131,848	$ 15,066,860

See accompanying notes to the financial statements.

MARTHA O'BRYAN CENTER, INC.

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (993,195)	$ (5,884)
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	266,776	283,824
Provision for doubtful accounts	461,431	-
(Increase) decrease in operating assets:		
Government grant receivables	(218,492)	78,722
Other receivables	129,624	10,526
Unconditional promises to give	710,303	(507,177)
Prepaid expenses	109,514	218,359
Increase (decrease) in operating liabilities:		
Accounts payable	(240,337)	(145,853)
Accrued liabilities	(53,729)	268,249
Total adjustments	1,165,090	206,650
Net cash provided by operating activities	171,895	200,766
Cash flows from investing activities:		
Purchases of property and equipment	(107,864)	(57,391)
Net cash used by investing activities	(107,864)	(57,391)
Cash flows from financing activities -		
Proceeds from loan payable to Martha O'Bryan Foundation	-	100,000
Net borrowings on line of credit	200,000	225,000
Net cash provided by financing activities	200,000	325,000
Change in cash and cash equivalents	264,031	468,375
Cash and cash equivalents at beginning of year	1,908,917	1,440,542
Cash and cash equivalents at end of year	$ 2,172,948	$ 1,908,917
Supplemental cash flow information:		
Cash paid for interest	$ 31,380	$ -

During 2018, the Martha O'Bryan Foundation's support for the Center was made as a reduction of the outstanding loan payable to the Foundation totaling $60,282.

See accompanying notes to the financial statements.

(1) Nature of activities

Martha O'Bryan Center, Inc. (the "Center"), founded in 1894, is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The primary programs of the Center include charter schools, child development, youth services, community services, family education, and a family resource center. The Center operates primarily in its East Nashville community. The charter schools discussed below are programs of the Center. Accordingly, all activity of the schools are included in the accompanying financial statements.

During 2011, the Center received funding for a charter school, East End Preparatory School ("EEP"), in East Nashville. EEP plans to provide kindergarten through grade eight students with the academic foundation necessary to excel in high school and beyond, while fully integrating familial and community support to help them achieve their goals. EEP opened in August 2011 with four kindergarten classes and plans to add an additional grade each year culminating with the addition of the eighth grade in the 2019-2020 fiscal year.

During 2014, the Center received approval to open another charter school, Explore Community School ("Explore"). Explore plans to provide kindergarten through grade eight students with opportunities to foster independence, critical thinking and creativity through project-based learning. Explore opened in August 2015 and plans to add an additional grade each year, similar to EEP.

(2) Summary of significant accounting policies

(a) Basis of presentation

The accompanying financial statements present the financial position and changes in net assets of the Center on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions as follows:

***Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.**

***Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.**

Permanently restricted net assets **are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for certain restricted or unrestricted purposes. At June 30, 2018 and 2017, the Center had no permanently restricted net assets.**

(b) Cash and cash equivalents

The Center considers all highly liquid investments with original maturities of less than three months to be cash equivalents. The Center may, at times, maintain bank accounts whose balances exceed federally insured limits. However, the Center has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

(c) Contributions and promises to give

Contributions are recognized as revenues in the period unconditionally pledged. The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period as received are reported as unrestricted support. Donor pledges which are expected to be collected over a period greater than one year are discounted at current interest rates, if material.

The Center uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. See Note 4.

(d) Grant revenues and receivables

Grant revenues are recognized when qualified reimbursable expenses are incurred or when services are performed. Grant funds received in advance are recognized as deferred grant revenue until earned. Grant receivables represent amounts due from grants which have been earned but not received. All grant receivables are reported at estimated collectible amounts.

The Center receives Federal financial assistance through state agencies, as well as state and local government grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center as of June 30, 2018 and 2017.

(e) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation. It is the Center's policy to capitalize property and equipment over $500. Depreciation is calculated using the straight-line method to allocate the cost of depreciable assets over the estimated useful lives of the assets. The useful lives for buildings and improvements range from five to forty years. The lives for equipment, furniture and fixtures, office equipment and automobiles range from three to ten years. Donated property and equipment are recorded at their estimated fair value at the date of the gift.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in unrestricted net assets.

(f) Donated materials and services

Donated materials are recognized as contributions at their estimated fair values on date of receipt. The Center recognizes the fair value of contributed services received if such services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. The Center receives services from a large number of volunteers who give significant amounts of their time to the Center’s programs and fund-raising campaigns but which do not meet the criteria for financial statement recognition.

(g) Income taxes

The Center is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

Under GAAP, a tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Center had no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements as of June 30, 2018 and 2017.

The Center files a U.S. Federal information tax return. As of June 30, 2018 and 2017, the Center has accrued no interest and no penalties related to uncertain tax positions. It is the Center's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

(h) Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Expenses which are directly related to a function are charged to that function. Expenses that are related to more than one function are allocated to the applicable functions based upon various allocation methods in order to reflect the total cost of each function. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Center.

(i) Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(j) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Recently issued accounting pronouncement

In August 2016, the Financial Standards Accounting Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes certain presentation and disclosure requirements of not-for-profit entities. The primary changes are a reduction in the number of net asset classes from three to two (donor restricted and non-donor restricted), reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring enhanced disclosures about how a not-for-profit entity manages its liquidity and requiring reporting of expenses by functional and natural classification, as well as enhanced endowment disclosures. This standard is effective for fiscal years beginning after December 15, 2017 and will be adopted by the Center for fiscal year 2019. The Center expects the impact of adoption to be in the form of additional disclosures.

(l) Reclassifications

Certain reclassifications have been made to the 2017 financial statements in order for them to conform to the 2018 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(m) Events occurring after reporting date

The Center has evaluated events and transactions that occurred between June 30, 2018 and March 28, 2019, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Significant support

The Center received approximately 23% and 27% of its support and revenues from various governmental agencies and from the United Way of Nashville and Middle Tennessee for the years ended June 30, 2018 and 2017, respectively. United Way revenue is recognized in the year in which the award letter is received. Although this method of recognition is appropriate under GAAP, it may result in support recorded in one year and the related expense recorded in another year.

The Center received approximately 61% in 2018 and 52% in 2017 of its funding for operations from Metro Nashville Public Schools based on the State of Tennessee's Basic Education Program ("BEP") for its charter schools, EEP and Explore. BEP funding is designated to schools based on student attendance. Gross BEP funding for the year ended June 30, 2018 was $9,838,460 which includes $170,000 of capital outlay funds to be used for facility rent. Gross BEP funding for the year ended June 30, 2017 was $7,967,652 which includes $140,000 of capital outlay funds to be used for facility rent.

A major reduction of these funds, should this occur, may have a significant effect on future operations of the Center.

(4) Unconditional promises to give

Unconditional promises to give at June 30, 2018 and 2017 is as follows:

	2018	2017
Gross promises to give	$ 262,000	$ 1,445,401
Less allowance for uncollectible promises	-	(11,667)
Net promises to give	262,000	1,433,734
Promises receivable due in less than one year	262,000	466,938
Promises receivable due within one to five years	$ -	$ 966,796

(5) Property and equipment

Property and equipment at June 30, 2018 and 2017 is as follows:

	2018	2017
Land	$ 1,150	$ 1,150
Building and improvements	3,954,437	3,954,437
Furniture and fixtures	377,909	374,618
Equipment	1,043,776	943,447
Automobiles	115,533	115,533
Office equipment	35,623	31,378
	5,528,428	5,420,563
Accumulated depreciation	(3,650,044)	(3,383,267)
	$ 1,878,384	$ 2,037,296

(6) Line of credit

The Center has an agreement with a local financial institution for an unsecured revolving line of credit with a maximum availability of $1,000,000. During 2018, this arrangement was amended to increase the maximum availability from $700,000 and extended the maturity date through January 2019. Interest is payable monthly at the institution's prime rate of interest plus 0.75%, but in no event will the rate be less than 4% (5.00% at June 30, 2018). Amounts outstanding under this line of credit were $600,000 and $400,000 at June 30, 2018 and 2017, respectively. Subsequent to June 30, 2018, the Center extended the maturity of the line of credit through April 2019.

(7) Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes:

	2018	2017
For subsequent fiscal years operations and programs	$ 263,000	$ 1,450,604
For specific purposes		
Academic student unions/post-secondary programs	259,754	426,908
Thrive & K-8	64,491	91,075
Adult education	55,033	87,737
Joyful Noise	75,143	68,976
Tied Together	28,150	33,718
Child development	8,111	33,024
Meals on Wheels	-	26,730
Digital empowerment programs	999	5,162
Crisis social worker	48,761	4,621
Future Fundraising events	2,929	3,000
All others (less than $10,000 individually in either year)	823	1,772
	$ 807,194	$ 2,233,327

There were no permanently restricted net assets at June 30, 2018 and 2017. Cash and cash equivalents included $618,897 and $868,670 of temporarily restricted cash at June 30, 2018 and 2017, respectively.

(8) Retirement plans

The Center maintains a 401(k) retirement plan. Employees are eligible to participate in the 401(k) plan after completing one year of service and attaining age eighteen. The Center may make matching contributions to the plan on a discretionary basis.

EEP and Explore certified teachers, with membership in the Tennessee Consolidated Retirement Plan (TCRS) before July 1, 2014, are provided with pensions through the Teacher Legacy Pension Plan, a cost-sharing, multiple employer defined benefit pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Contributions for teachers are established in the statutes governing TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5% of salary. The Center annually contributed 9.04% of covered payroll to the plan for 2018 and 2017.

EEP and Explore certified teachers, with membership in the TCRS after July 1, 2014, are provided with pensions through the Teacher Retirement Plan, a cost-sharing, multiple employer defined benefit pension plan administered by the TCRS. Contributions for teachers are established in the statutes governing TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5% of salary. The Center annually contributed 4% of covered payroll to the plan for 2018 and 2017.

All other EEP and Explore employees participate in the Metropolitan Government of Nashville and Davidson County's Division B Pension Plan, a defined benefit multi-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. All funding is provided under an actuarially recommended employee contribution rate of 6.71% for 2018 and 12.34% for 2017 for the non-certificate employees of the Metropolitan Nashville Public Schools.

The total employer expense of the Center for all of the above plans was $529,687 and $466,897 for 2018 and 2017, respectively.

(9) Leases

The Center rents educational space from the Metropolitan Government of Nashville for its charter schools, EEP and Explore. The EEP lease requires monthly payments of $28,507 through June 20, 2025, subject to annual increases of 2%. The Explore lease requires monthly payments of $8,000 through June 30, 2018. On July 1, 2018, Explore renewed the lease through June 30, 2019 for $9,000 a month. The Center also leases office equipment under the terms of non-cancelable operating leases. Rent expense under all leases totaled $606,701 and $494,433 for 2018 and 2017, respectively.

A summary of approximate future minimum payments under these equipment leases as of June 30, 2018 is as follows:

	Amount
2019	$ 466,000
2020	365,000
2021	372,000
2022	379,000
2023	374,000
2024 and later years	763,000
	$ 2,719,000

(10) Donated materials and services

The value of donated materials and services included in the financial statements for the years ended June 30 are as follows:

		2018		2017
Support and revenue:				
In-kind contributions	$	132,396	$	270,287
Expenses:				
Materials for community services	$	70,396	$	145,637
Pre-K teacher subsidies for early learning center		62,000		124,650

(11) Related party transactions

The Center receives funding from the Martha O'Bryan Foundation, Inc. ("Foundation"), a related entity which is governed by a separate Board of Directors. A total of $65,119 and $26,711 was received from the Foundation during 2018 and 2017, respectively.

As of June 30, 2018 and 2017, the Foundation had a loan from the Center totaling $39,718 and $100,000, respectively. There are no specific terms assigned to the loan arrangement; however, for 2018, interest on the loan was charged at a rate of 3.05%.

MARTHA O'BRYAN CENTER, INC.

Schedule of Expenditures of Federal Awards and State Financial Assistance

For the Year Ended June 30, 2018

Federal or State Grantor/Program Title/ Pass-through Grantor	Federal CFDA Number	Grantor's Number		Expenditures
Expenditures of Federal Awards:				
U.S. Department of Education:				
Title I Grants to Local Educational Agencies (Passed through Metro Nashville Public Schools)	84.010	N/A	$	424,745
Special Education Grants to States (Passed through State of Tennessee Department of Education)	84.027	N/A		150,815
21st Century Community Learning Centers (Passed through State of Tennessee Department of Education)	84.287C	Z-09-212332-00		229,939
Total U.S. Department of Education				805,499
U.S. Department of Agriculture:				
National School Lunch Program (Passed through Tennessee Department of Education)	10.555	N/A		79,447
U.S. Department of Housing and Urban Development:				
Jobs-Plus Pilot Initiative (Passed through Metropolitan Development and Housing Agency)	14.895	FR-5900-N-10		242,259
U.S. Department of Labor:				
WIA/WIOA Youth Activities (Passed through Metropolitan Government of Nashville and Davidson County)	17.259	N/A		243,980
U.S. Department of Justice:				
Byrne Criminal Justice Innovation Program	16.817	2013-AJ-BX-0011		121,115
Corporation for National and Community Service:				
AmeriCorps (Passed through Tennessee Department of Finance and Administration	94.006	31701-11712		107,293
Total expenditures of federal awards				1,599,593
Expenditures of State Financial Assistance:				
Tennessee Department of Children Services:				
Tied Together Program	N/A	GR1238698	$	100,000
State of Tennessee Department of Education:				
Basic Education Program - Capital Outlay	N/A	N/A		170,000
High-Quality Charter School Facilities Program	N/A	N/A		125,000
LEAPs	N/A	33119-01512		216,531
Total State of Tennessee Department of Education				511,531
Total expenditures of state financial assistance				611,531
Total expenditures of federal awards and state financial assistance			$	2,211,124

See accompanying notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance

Notes to the Schedule of Expenditures of Federal Awards and State Financial Assistance

June 30, 2018

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the "Schedule") includes the federal and state grant activity of Martha O'Bryan Center, Inc. (the "Center"). The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and the State of Tennessee. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

(2) Summary of significant accounting policies

For purposes of the Schedule, expenditures of federal and state grant awards are recognized on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Center did not expend any Federal or State awards during fiscal year 2018 in the form of non-cash assistance.

The Center elected to not use the 10% deminimus indirect cost rate.

The Center did not provide any funds to subrecipients.

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*

The Board of Trustees of
Martha O'Bryan Center, Inc.:

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 Martha O'Bryan Center, Inc. (the "Center"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2019.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit of the financial statements, we considered the Center'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 Center'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 the Center's financial statements are free of 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LBMC, PC

Brentwood, Tennessee
March 28, 2019

LBMC MAKE A GOOD BUSINESS BETTER

Independent Auditors' Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Trustees of
Martha O'Bryan Center, Inc.:

Report on Compliance for Each Major Federal Program

We have audited the compliance of Martha O'Bryan Center, Inc. (the "Center") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended June 30, 2018. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Center's major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

LBMC, PC

Brentwood, Tennessee
March 28, 2019

MARTHA O'BRYAN CENTER, INC.

Schedule of Findings and Questioned Costs

June 30, 2018

(1) SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	___yes	_x_no
Significant deficiency(ies) identified?	___yes	_x_none reported
Noncompliance material to financial statements noted?	___yes	_x_no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	___yes	_x_no
Significant deficiency(ies) identified?	___yes	_x_none reported
Type of auditors' report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___yes	_x_no

Identification of major programs for the Center for the fiscal year ended June 30, 2018 are:

CFDA Number	Name of Federal Program
84.010	Title 1 Grants to Local Educational Agencies

Dollar threshold to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee?	_x_yes	___no

(2) FINDINGS RELATING TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None

MARTHA O'BRYAN CENTER, INC.

Summary Schedule of Prior Audit Findings

June 30, 2018

None reported.