

MARTHA O'BRYAN CENTER, INC.

FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2017 and 2016

And Report of Independent Auditor

MARTHA O'BRYAN CENTER, INC.

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MARTHA O'BRYAN CENTER, INC.
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF
As of June 30, 2017

Board of Directors

Clay Richards	Chairman of the Board
Lee Ballew	Co-Treasurer
Trea McMillian	Co-Treasurer
Charles Barrett	Board Member
Ben Cundiff	Board Member
Tam Gordon	Board Member
Marilyn Greer	Board Member
Meredith Griffith	Board Member
Greg Hagood	Board Member
Eddie Hamilton	Board Member
Zach Hunt	Board Member
Corinne Kidd	Board Member
Sabrina Miller	Board Member
Tim Sinks	Board Member
Leslie Zmugg	Board Member

Executive Staff

Marsha Edwards	President & CEO
Vickeeta Coleman	Chief Operating Officer
Peter Martino	Chief Talent and Innovation Officer

Report of Independent Auditor

To the Board of Directors of
Martha O'Bryan Center, Inc.
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Martha O'Bryan Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to 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.

Auditor's 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2017, 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 June 30, 2016, were audited by other auditors whose report dated December 20, 2016 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 accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. Code of Federal Regulations (CFR) 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 applied in the audit of the financial statements 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 December 22, 2017, on our consideration of Martha O'Bryan Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on Martha O'Bryan Center's 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 Martha O'Bryan Center, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Cheryl Beckett LLP". The signature is written in a cursive, flowing style.

Nashville, Tennessee
December 22, 2017

MARTHA O'BRYAN CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,908,917	\$ 1,440,542
Government grants receivable	358,514	437,236
Other receivables	208,942	219,468
Unconditional promises to give, net	1,433,734	926,557
Prepaid expenses	115,592	333,951
Property and equipment, net	2,037,296	2,263,729
Total assets	\$ 6,062,995	\$ 5,621,483
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 289,840	\$ 435,693
Accrued liabilities	519,235	250,986
Loan payable to Martha O'Bryan Foundation	100,000	-
Line of credit	400,000	175,000
Total liabilities	1,309,075	861,679
Net assets:		
Unrestricted:		
Undesignated	2,520,593	3,213,988
Total unrestricted	2,520,593	3,213,988
Temporarily restricted	2,233,327	1,545,816
Total net assets	4,753,920	4,759,804
Total liabilities and net assets	\$ 6,062,995	\$ 5,621,483

See accompanying notes to the financial statements.

MARTHA O'BRYAN CENTER, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and support:						
Government grants	\$ 2,169,755	\$ -	\$ 2,169,755	\$ 1,759,111	\$ -	\$ 1,759,111
Donations and private grants	1,918,254	2,209,589	4,127,843	1,557,650	2,212,894	3,770,544
Program fees and subsidies	7,827,652	-	7,827,652	5,731,291	-	5,731,291
Fundraising events	-	-	-	45,559	-	45,559
Future year contributions	-	604,591	604,591	-	-	-
In-kind donations	270,287	-	270,287	436,895	-	436,895
Interest and miscellaneous	60,848	-	60,848	94,856	-	94,856
Net assets released from restrictions:						
Restrictions satisfied by incurrence of costs	723,826	(723,826)	-	729,456	(729,456)	-
Expiration of time restrictions	1,402,843	(1,402,843)	-	1,651,932	(1,651,932)	-
Total revenues and support	<u>14,373,465</u>	<u>687,511</u>	<u>15,060,976</u>	<u>12,006,750</u>	<u>(168,494)</u>	<u>11,838,256</u>
Program services:						
Charter schools	8,577,907	-	8,577,907	6,155,094	-	6,155,094
Child development	732,148	-	732,148	775,293	-	775,293
Youth services	1,993,174	-	1,993,174	1,883,710	-	1,883,710
Community services	267,067	-	267,067	384,638	-	384,638
Family education	1,364,716	-	1,364,716	1,055,141	-	1,055,141
Total program services	<u>12,935,012</u>	<u>-</u>	<u>12,935,012</u>	<u>10,253,876</u>	<u>-</u>	<u>10,253,876</u>
Supporting services:						
Management and general	1,781,863	-	1,781,863	1,906,320	-	1,906,320
Fundraising	349,985	-	349,985	228,765	-	228,765
Total supporting services	<u>2,131,848</u>	<u>-</u>	<u>2,131,848</u>	<u>2,135,085</u>	<u>-</u>	<u>2,135,085</u>
Total expenses	<u>15,066,860</u>	<u>-</u>	<u>15,066,860</u>	<u>12,388,961</u>	<u>-</u>	<u>12,388,961</u>
Change in net assets	(693,395)	687,511	(5,884)	(382,211)	(168,494)	(550,705)
Net assets - beginning of year	3,213,988	1,545,816	4,759,804	3,596,199	1,714,310	5,310,509
Net assets - end of year	<u>\$ 2,520,593</u>	<u>\$ 2,233,327</u>	<u>\$ 4,753,920</u>	<u>\$ 3,213,988</u>	<u>\$ 1,545,816</u>	<u>\$ 4,759,804</u>

See accompanying notes to the financial statements.

MARTHA O'BRYAN CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	Program Services						Supporting Services			
	Charter Schools	Child Development	Youth Services	Community Services	Family Education	Total	Management and General	Fund- raising	Total	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
Bad debt expense	-	-	-	-	-	-	-	-	-	-
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 expenses	\$ 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.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services						Supporting Services			
	Charter Schools	Child Development	Youth Services	Community Services	Family Education	Total	Management and General	Fund- raising	Total	Total
Salaries	\$ 3,417,440	\$ 395,337	\$ 1,294,937	\$ 96,097	\$ 784,083	\$ 5,987,894	\$ 1,161,967	\$ 155,367	\$ 1,317,334	\$ 7,305,228
Employee benefits	726,333	35,005	66,157	8,958	61,770	898,223	103,824	11,305	115,129	1,013,352
Payroll taxes	250,959	29,158	97,387	7,135	58,485	443,124	82,143	10,804	92,947	536,071
Total personnel costs	4,394,732	459,500	1,458,481	112,190	904,338	7,329,241	1,347,934	177,476	1,525,410	8,854,651
Professional services	157,864	225	21,198	1,800	51,739	232,826	123,726	9,733	133,459	366,285
Insurance	47,738	-	-	-	2	47,740	33,856	-	33,856	81,596
Food and supplies	321,785	92,902	105,429	7,813	39,306	567,235	31,278	4,566	35,844	603,079
Client assistance	-	-	11,210	-	20,746	31,956	301	1,597	1,898	33,854
Communications	11,446	690	4,115	300	7,270	23,821	36,117	15,051	51,168	74,989
Utilities	-	-	490	-	-	490	68,916	-	68,916	69,406
Building and grounds maintenance	418,158	8,165	5,579	-	1,532	433,434	112,477	4,297	116,774	550,208
Equipment maintenance and repair	-	-	-	-	-	-	15,483	8,095	23,578	23,578
Vehicles and travel	495,179	2,440	42,272	-	7,692	547,583	34,392	444	34,836	582,419
Professional development	67,022	2,599	180,864	-	6,724	257,209	919	-	919	258,128
Subscriptions	-	100	1,205	-	454	1,759	5,399	350	5,749	7,508
Fees, licenses, and miscellaneous	154,789	2,778	14,135	754	1,602	174,058	28,805	2,484	31,289	205,347
In-kind gifts	-	177,130	-	236,965	-	414,095	-	-	-	414,095
Bad debt expense	3,500	-	-	-	-	3,500	8,400	-	8,400	11,900
Total expenses before depreciation	6,072,213	746,529	1,844,978	359,822	1,041,405	10,064,947	1,848,003	224,093	2,072,096	12,137,043
Depreciation	82,881	28,764	38,732	24,816	13,736	188,929	58,317	4,672	62,989	251,918
Total expenses	<u>\$ 6,155,094</u>	<u>\$ 775,293</u>	<u>\$ 1,883,710</u>	<u>\$ 384,638</u>	<u>\$ 1,055,141</u>	<u>\$ 10,253,876</u>	<u>\$ 1,906,320</u>	<u>\$ 228,765</u>	<u>\$ 2,135,085</u>	<u>\$ 12,388,961</u>

See accompanying notes to the financial statements.

MARTHA O'BRYAN CENTER, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (5,884)	\$ (550,705)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	283,824	251,918
Contribution of property and equipment	-	(22,000)
Loss on disposal of assets	-	16,181
Net changes in other assets and liabilities:		
Grants receivable	78,722	(288,097)
Other receivables	10,526	(40,639)
Unconditional promises to give	(507,177)	448,215
Prepaid expenses	218,359	(211,888)
Accounts payable	(145,853)	189,511
Accrued liabilities	268,249	(261,708)
	<u>200,766</u>	<u>(469,212)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	<u>(57,391)</u>	<u>(411,061)</u>
Net cash used in investing activities	<u>(57,391)</u>	<u>(411,061)</u>
Cash flows from financing activities:		
Proceeds from loan payable to Martha O'Bryan Foundation	100,000	-
Net borrowings on line of credit	<u>225,000</u>	<u>175,000</u>
Net cash provided by financing activities	<u>325,000</u>	<u>175,000</u>
Increase (decrease) in cash and cash equivalents	468,375	(705,273)
Cash and cash equivalents - beginning of year	<u>1,440,542</u>	<u>2,145,815</u>
Cash and cash equivalents - end of year	<u>\$ 1,908,917</u>	<u>\$ 1,440,542</u>

See accompanying notes to the financial statements.

MARTHA O'BRYAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 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. See Note 3 for a description of the Center's reliance on certain funding. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Periods

All references to 2017 and 2016 in these financial statements refer to the years ended June 30, 2017 and 2016, respectively, unless otherwise noted.

Basis of Financial Statement 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.

MARTHA O'BRYAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Financial Statement Presentation (Continued)

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, 2017 and 2016, the Center had no permanently restricted net assets.

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.

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, 2017 and 2016.

MARTHA O'BRYAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Center considers all cash on hand, cash in various bank accounts and all highly liquid debt instruments, with an original maturity when purchased of three months or less, to be cash and 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.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, receivables, unconditional promises to give, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions, major renewals, and betterment of property and equipment with a cost in excess of \$500 are capitalized. The fair value of donated property and equipment is similarly capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. 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; useful lives for equipment and automobiles range from three to ten years.

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 a) create or enhance nonfinancial assets or b) 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.

Income Taxes

The Center is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and the Center is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

MARTHA O'BRYAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The Center follows FASB ASC guidance clarifying the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Center has no tax penalties or interest reported in the accompanying financial statements.

The Center files an annual information return (U.S. Federal Form 990) with the U.S. government. Tax returns are subject to audit by the U.S. Internal Revenue Service for three years following the date of filing.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Center evaluated subsequent events through December 22, 2017, when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the accompanying financial statements.

MARTHA O'BRYAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 3 – SIGNIFICANT SUPPORT

The Center received approximately 27% and 30% 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, 2017 and 2016, respectively. United Way revenue is recognized in the year in which the award letter is received. Although this method of recognition is appropriate under generally accepted accounting principles, it may result in support recorded in one year and the related expense recorded in another year.

Martha O'Bryan Center's Champion Breakfast is a bi-annual fundraiser which raises over a million dollars. The pledges are spread over a two year period with a historical split between years of 60/40. The revenue is recognized for both years in the year in which the pledge is made in accordance with GAAP. This methodology does not reflect actual cash collections during the year and limits comparative analysis from year to year. Over the past five bi-annual fundraisers, the Center has collected more than 90% of pledges received.

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

NOTE 4 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Gross promises to give	\$ 1,445,401	\$ 938,224
Less allowance for uncollectible promises	<u>(11,667)</u>	<u>(11,667)</u>
Net promises to give	1,433,734	926,557
Promises receivable due in less than one year	<u>466,938</u>	<u>538,212</u>
Promises receivable due within one to five years	<u>\$ 966,796</u>	<u>\$ 388,345</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,150	\$ 1,150
Buildings and improvements	3,954,437	3,954,437
Equipment	1,136,074	1,213,214
Vehicles	115,533	133,033
Fixtures	<u>213,369</u>	<u>78,839</u>
	5,420,563	5,380,673
Less accumulated depreciation	<u>(3,383,267)</u>	<u>(3,116,944)</u>
	<u>\$ 2,037,296</u>	<u>\$ 2,263,729</u>

MARTHA O'BRYAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 6 – LINE OF CREDIT

During 2015, the Center had an agreement with a local financial institution for an unsecured revolving line of credit with a maximum availability of \$700,000. Any outstanding borrowings and all accrued interest were due in May 2016. This arrangement was extended through May 2017 under substantially the same terms. 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, 2017). Amounts outstanding under this line of credit were \$400,000 and \$175,000 at June 30, 2017 and 2016, respectively. Subsequent to June 30, 2017, the arrangement was extended to allow maximum borrowings of \$1,000,000 and is currently due in September 2018.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2017</u>	<u>2016</u>
For subsequent fiscal years operations and programs	\$ 1,450,604	\$ 965,929
For specific purposes:		
Academic Student Unions / Post-Secondary programs	426,908	259,000
Thrive & K-8	91,075	34,318
Adult education	87,737	39,752
Joyful Noise	68,976	79,430
Tied Together	33,718	42,809
Child development	33,024	-
Meals on Wheels	26,730	23,080
Digital empowerment programs	5,162	14,853
Crisis social worker	4,621	25,000
Future fundraising events	3,000	9,535
All others (less than \$10,000 individually in either year)	1,772	29,984
Educational assistance	-	11,673
Napier community programs	-	10,000
Total temporarily restricted net assets	<u>\$ 2,233,327</u>	<u>\$ 1,545,363</u>

There were no permanently restricted net assets at June 30, 2017 and 2016. Cash and cash equivalents included \$868,670 and \$578,132 of temporarily restricted cash at June 30, 2017 and 2016, respectively.

MARTHA O'BRYAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 8 – LEASES

During 2012, the Center began renting educational space from the Metropolitan Government of Nashville for its charter school, EEP. The lease term ended June 30, 2015, and was subsequently extended through 2025. The Center also leases office equipment under the terms of non-cancellable operating leases. Rent expense under all leases totaled \$494,433 and \$267,061 for 2017 and 2016, respectively.

Effective July 1, 2015, Explore entered into a lease for classroom space through June 30, 2017. Future minimum lease payments under non-cancellable leases are as follows for fiscal years ending June 30:

2018		\$ 427,484
2019		431,209
2020		439,395
2021		448,183
2022		457,146
Thereafter		<u>1,427,033</u>
		<u>\$ 3,630,450</u>

During the year ended June 30, 2016, EEP paid for the replacement of the roof in the building it uses. EEP leases space but does not own the real estate or building. Expenses totaling \$223,965 relating to the roof replacement have been classified as prepaid rent and are being amortized over approximately 30 months through a reduction in the rent payments to be made to the lessor.

NOTE 9 – 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 contributed 9.04% of covered payroll to the plan for 2017 (9.04% for 2016).

MARTHA O'BRYAN CENTER, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2017 and 2016

NOTE 9 – RETIREMENT PLANS (Continued)

EEP and Explore certified teachers, with membership in the Tennessee Consolidated Retirement Plan (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 contributed 4% of covered payroll to the plan for 2017 (4% for 2016).

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 12.34% for 2017 (15.51% for 2016) 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 \$466,897 and \$367,500 for 2017 and 2016, respectively.

NOTE 10 – RELATED PARTIES

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 \$26,711 and \$51,512 was received from the Foundation during 2017 and 2016, respectively.

As of June 30, 2017, the Foundation made a loan to the Center of \$100,000. Currently there are no specific terms assigned to the loan arrangement.

NOTE 11 – 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:

	<u>2017</u>	<u>2016</u>
Support and revenue:		
In-kind contributions	\$ <u>270,287</u>	\$ <u>436,895</u>
Fixed Assets:		
Furniture for Explore Community School	\$ -	\$ 22,000
Expenses:		
Materials for community services	\$ 145,637	\$ 236,965
Pre-K teacher subsidies for early learning center	124,650	177,130
Materials for Explore Community School	-	800

ADDITIONAL INFORMATION

MARTHA O'BRYAN CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2017

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	\$ 279,031
Special Education Grants to States (Passed through State of Tennessee Department of Education)	84.027	N/A	153,981
21st Century Community Learning Centers (Passed through State of Tennessee Department of Education)	84.287C	33109-00314	<u>348,246</u>
Total U.S. Department of Education			<u>781,258</u>
U.S. Department of Agriculture:			
National School Lunch Program (Passed through Tennessee Department of Education)	10.555	N/A	<u>71,041</u>
Total U.S. Department of Agriculture			<u>71,041</u>
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	<u>249,134</u>
Total U.S. Department of Housing and Urban Development			<u>249,134</u>
U.S. Department of Labor:			
WIA / WIOA Youth Activities (Passed through Metropolitan Government of Nashville and Davidson County)	17.259	378138	<u>233,657</u>
Total U.S. Department of Labor			<u>233,657</u>
U.S. Department of Justice:			
Byrne Criminal Justice Innovation Program	16.817	2013-AJ-BX-0011	<u>335,647</u>
Total U.S. Department of Justice			<u>335,647</u>
Corporation for National and Community Service:			
AmeriCorps (Passed through Tennessee Department of Finance and Administration)	94.006	31701-11503	<u>178,226</u>
Total Corporation for National and Community Service			<u>178,226</u>
Total expenditures of federal awards			<u>1,848,963</u>

See accompanying notes to the schedule of expenditures of federal awards and state financial assistance.

MARTHA O'BRYAN CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE (Continued)
For the Year Ended June 30, 2017

Federal or State Grantor/ Program Title/ Pass-through Grantor	Federal CFDA Number	Grantor's Number	Expenditures
Expenditures of State Financial Assistance:			
Tennessee Department of Children Services:			
Tied Together Program	N/A	35910-01075	94,635
Total Tennessee Department of Children Services			94,635
State of Tennessee Department of Education:			
Basic Education Program - Capital Outlay	N/A	N/A	140,000
LEAPs	N/A	33109-06715	86,157
Total State of Tennessee Department of Education			226,157
Total expenditures of state financial assistance			320,792
Total expenditures of federal awards and state financial assistance			\$ 2,169,755

See accompanying notes to the schedule of expenditures of federal awards and state financial assistance.

MARTHA O'BRYAN CENTER, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the "Schedule") summarizes the expenditures of Martha O'Bryan Center, Inc. under programs of the federal and state governments for the year ended June 30, 2017. The information in this 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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

Martha O'Bryan Center, Inc. expended indirect costs using a contracted method and did not elect to use the 10% de minimis cost rate allowed under the Uniform Guidance.

**Report of Independent Auditor on
Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Directors of
Martha O'Bryan Center, Inc.
Nashville, Tennessee

We have audited, 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, the financial statements of Martha O'Bryan Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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 issued our report thereon dated December 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Martha O'Bryan Center, Inc.'s internal control over financial reporting (internal control) to determine 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 Martha O'Bryan Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Martha O'Bryan Center, Inc.'s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Martha O'Bryan Center, Inc.'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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Cheryl Beckett LLP". The signature is written in a cursive, flowing style.

Nashville, Tennessee
December 22, 2017

**Report of Independent Auditor on
Compliance for Each Major Program and on
Internal Control over Compliance
Required by the Uniform Guidance**

To the Board of Directors of
Martha O'Bryan Center, Inc.
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Martha O'Bryan Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Martha O'Bryan Center, Inc.'s major federal programs for the year ended June 30, 2017. Martha O'Bryan Center, Inc.'s major federal programs are identified in the summary of auditor's 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 and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Martha O'Bryan Center, Inc.'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 Martha O'Bryan Center, Inc.'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 Martha O'Bryan Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Martha O'Bryan Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Martha O'Bryan Center, Inc. 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 Martha O'Bryan Center, Inc.'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 Martha O'Bryan Center, Inc.'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 on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Handwritten signature in blue ink that reads "Cheryl Bekant LLP".

Nashville, Tennessee
December 22, 2017

MARTHA O'BRYAN CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Martha O'Bryan Center, Inc. were prepared in accordance with GAAP.
2. No significant deficiencies were disclosed during the audit of the financial statements or were reported in the Report of Independent Auditor 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*. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Martha O'Bryan Center, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Report of Independent Auditor on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for Martha O'Bryan Center, Inc. expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.817	Byrne Criminal Justice Innovation Program
84.287C	21 st Century Community Learning Centers

8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. Martha O'Bryan Center, Inc. was determined to be a low-risk auditee.

MARTHA O'BRYAN CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2017

FINDINGS – FINANCIAL STATEMENT AUDIT

None.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None.

MARTHA O'BRYAN CENTER, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2017

None.