

**MARTHA O'BRYAN CENTER, INC.**

**FINANCIAL STATEMENTS**

**June 30, 2014 and 2013**

**MARTHA O'BRYAN CENTER, INC.**

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## INDEPENDENT AUDITOR'S REPORT

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, 2014, 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.

### ***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, 2014, 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, 2013, were audited by other auditors whose report dated March 25, 2014, expressed an unmodified opinion on those statements.

### ***Other Matters***

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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 29, 2014, 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 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.

*Frasier, Dean + Howard, PLLC*

Nashville, Tennessee  
December 29, 2014

**MARTHA O'BRYAN CENTER, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,300,317	\$ 1,034,635
Government grants receivable	237,541	339,421
Other receivables	161,576	296,827
Unconditional promises to give, net	874,525	1,112,472
Prepaid expenses	33,163	48,754
Property and equipment, net	2,141,787	2,157,324
Total assets	\$ 4,748,909	\$ 4,989,433
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 355,772	\$ 128,303
Accrued liabilities	406,825	429,995
Total liabilities	762,597	558,298
Net assets:		
Unrestricted:		
Undesignated	2,849,140	3,031,308
Total unrestricted	2,849,140	3,031,308
Temporarily restricted	1,137,172	1,399,827
Permanently restricted	-	-
Total net assets	3,986,312	4,431,135
Total liabilities and net assets	\$ 4,748,909	\$ 4,989,433

See accompanying notes to the financial statements.

**MARTHA O'BRYAN CENTER, INC.**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended June 30, 2014 and 2013**

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and support:						
Government grants	\$ 1,461,694	\$ -	\$ 1,461,694	\$ 1,860,064	\$ -	\$ 1,860,064
Donations and private grants	2,740,360	1,056,824	3,797,184	3,348,652	1,469,530	4,818,182
Program fees and subsidies	2,843,390	-	2,843,390	2,033,450	-	2,033,450
Fundraising events	68,107	-	68,107	73,442	-	73,442
In-kind donations	293,982	-	293,982	448,243	-	448,243
Interest and miscellaneous	74,685	-	74,685	30,989	-	30,989
Net assets released from restrictions:						
Restrictions satisfied by incurrence of costs	520,412	(520,412)	-	878,719	(878,719)	-
Expiration of time restrictions	799,067	(799,067)	-	287,427	(287,427)	-
Total revenues and support	<u>8,801,697</u>	<u>(262,655)</u>	<u>8,539,042</u>	<u>8,960,986</u>	<u>303,384</u>	<u>9,264,370</u>
Program services:						
East End Preparatory	2,706,554	-	2,706,554	1,674,351	-	1,674,351
Child development	924,656	-	924,656	1,278,111	-	1,278,111
Reading	923,125	-	923,125	826,940	-	826,940
Youth services	1,296,157	-	1,296,157	1,543,710	-	1,543,710
Community services	309,862	-	309,862	982,684	-	982,684
Family education	743,694	-	743,694	643,044	-	643,044
Total program services	<u>6,904,048</u>	<u>-</u>	<u>6,904,048</u>	<u>6,948,840</u>	<u>-</u>	<u>6,948,840</u>
Supporting services:						
Management and general	1,668,656	-	1,668,656	698,666	-	698,666
Fundraising	411,161	-	411,161	784,063	-	784,063
Total supporting services	<u>2,079,817</u>	<u>-</u>	<u>2,079,817</u>	<u>1,482,729</u>	<u>-</u>	<u>1,482,729</u>
Total expenses	<u>8,983,865</u>	<u>-</u>	<u>8,983,865</u>	<u>8,431,569</u>	<u>-</u>	<u>8,431,569</u>
Change in net assets	(182,168)	(262,655)	(444,823)	529,417	303,384	832,801
Net assets - beginning of year	3,031,308	1,399,827	4,431,135	2,501,891	1,096,443	3,598,334
Net assets - end of year	<u>\$ 2,849,140</u>	<u>\$ 1,137,172</u>	<u>\$ 3,986,312</u>	<u>\$ 3,031,308</u>	<u>\$ 1,399,827</u>	<u>\$ 4,431,135</u>

See accompanying notes to the financial statements.

**MARTHA O'BRYAN CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2014**

	Program Services							Supporting Services			
	East End Preparatory	Child Development	Reading	Youth Services	Community Services	Family Education	Total	Management and General	Fund- raising	Total	Total
Salaries	\$ 1,508,258	\$ 517,194	\$ 544,307	\$ 947,290	\$ 131,499	\$ 543,111	\$ 4,191,659	\$ 904,173	\$ 309,601	\$ 1,213,774	\$ 5,405,433
Employee benefits	309,091	54,063	36,134	89,917	11,085	54,071	554,361	39,200	27,200	66,400	620,761
Payroll taxes	113,822	38,899	41,503	69,471	6,086	38,616	308,397	53,811	22,071	75,882	384,279
Total personnel costs	1,931,171	610,156	621,944	1,106,678	148,670	635,798	5,054,417	997,184	358,872	1,356,056	6,410,473
Professional services	54,964	-	9,786	10,886	15,371	8,666	99,673	122,714	1,375	124,089	223,762
Insurance	21,454	-	-	-	-	-	21,454	37,886	-	37,886	59,340
Food and supplies	186,724	99,792	41,507	94,537	16,379	52,180	491,119	203,355	3,663	207,018	698,137
Client assistance	-	-	1,500	22,149	915	12,722	37,286	4,394	4,000	8,394	45,680
Communications	14,723	3	8	7,219	100	2,174	24,227	17,038	23,122	40,160	64,387
Utilities	-	-	-	4,155	262	-	4,417	69,445	-	69,445	73,862
Building and grounds maintenance	252,252	1,977	630	6,499	584	711	262,653	104,360	184	104,544	367,197
Equipment maintenance and repair	-	5,195	2,461	5,879	2,716	3,021	19,272	8,046	5,737	13,783	33,055
Vehicles and travel	174,906	331	22,709	2,684	9	2,519	203,158	23,294	710	24,004	227,162
Professional development	26,766	6,761	199,857	3,714	84	7,369	244,551	20,692	713	21,405	265,956
Subscriptions	-	-	159	-	-	340	499	2,695	350	3,045	3,544
Interest, fees, licenses, and miscellaneous	17,999	736	1	76	320	16	19,148	16,767	378	17,145	36,293
In-kind gifts	-	177,104	-	-	116,878	-	293,982	-	-	-	293,982
Bad debt expense	-	-	-	-	-	-	-	-	2,007	2,007	2,007
Total expenses before depreciation	2,680,959	902,055	900,562	1,264,476	302,288	725,516	6,775,856	1,627,870	401,111	2,028,981	8,804,837
Depreciation	25,595	22,601	22,563	31,681	7,574	18,178	128,192	40,786	10,050	50,836	179,028
Total expenses	<u>\$ 2,706,554</u>	<u>\$ 924,656</u>	<u>\$ 923,125</u>	<u>\$ 1,296,157</u>	<u>\$ 309,862</u>	<u>\$ 743,694</u>	<u>\$ 6,904,048</u>	<u>\$ 1,668,656</u>	<u>\$ 411,161</u>	<u>\$ 2,079,817</u>	<u>\$ 8,983,865</u>

See accompanying notes to the financial statements.

**MARTHA O'BRYAN CENTER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2013**

	Program Services							Supporting Services			
	East End Preparatory	Child Development	Reading	Youth Services	Community Services	Family Education	Total	Management and General	Fund- raising	Total	Total
Salaries	\$ 923,382	\$ 879,928	\$ 508,645	\$ 1,062,716	\$ 492,172	\$ 419,729	\$ 4,286,572	\$ 103,785	\$ 467,605	\$ 571,390	\$ 4,857,962
Employee benefits	202,768	88,156	30,858	105,126	32,185	51,106	510,199	19,974	49,783	69,757	579,956
Payroll taxes	68,694	51,559	38,306	77,208	38,095	30,509	304,371	46,107	32,926	79,033	383,404
Total personnel costs	1,194,844	1,019,643	577,809	1,245,050	562,452	501,344	5,101,142	169,866	550,314	720,180	5,821,322
Professional services	41,406	17,063	16,383	22,330	41,802	9,396	148,380	241,525	7,245	248,770	397,150
Insurance	11,889	9,708	806	10,065	5,921	2,798	41,187	3,897	1,882	5,779	46,966
Food and supplies	120,916	134,478	34,728	119,006	43,754	63,127	516,009	148,527	16,303	164,830	680,839
Client assistance	-	-	-	4,772	1,150	21,971	27,893	846	-	846	28,739
Communications	21,679	2,733	322	10,841	1,946	2,546	40,067	8,075	98,436	106,511	146,578
Utilities	-	18,950	1,573	20,920	11,558	5,462	58,463	7,606	3,673	11,279	69,742
Building and grounds maintenance	118,995	23,866	2,984	25,085	15,609	6,890	193,429	13,806	4,666	18,472	211,901
Equipment maintenance and repair	14,158	4,403	851	2,936	11,758	5,506	39,612	4,801	10,035	14,836	54,448
Vehicles and travel	109,517	10,745	11,896	19,697	7,469	4,720	164,044	7,448	2,035	9,483	173,527
Professional development	21,244	3,243	1,429	7,121	2,054	2,345	37,436	10,058	16,432	26,490	63,926
Afterschool programming	-	-	158,270	-	-	-	158,270	-	-	-	158,270
Subscriptions	-	868	244	61	190	164	1,527	5,568	537	6,105	7,632
Interest, fees, licenses, and miscellaneous	2,910	2,302	200	19,326	5,305	79	30,122	58,583	2,372	60,955	91,077
In-kind gifts	-	-	-	-	247,753	-	247,753	-	25,937	25,937	273,690
Bad debt expense	-	-	-	-	-	1,529	1,529	-	26,219	26,219	27,748
Total expenses before depreciation	1,657,558	1,248,002	807,495	1,507,210	958,721	627,877	6,806,863	680,606	766,086	1,446,692	8,253,555
Depreciation	16,793	30,109	19,445	36,500	23,963	15,167	141,977	18,060	17,977	36,037	178,014
Total expenses	<u>\$ 1,674,351</u>	<u>\$ 1,278,111</u>	<u>\$ 826,940</u>	<u>\$ 1,543,710</u>	<u>\$ 982,684</u>	<u>\$ 643,044</u>	<u>\$ 6,948,840</u>	<u>\$ 698,666</u>	<u>\$ 784,063</u>	<u>\$ 1,482,729</u>	<u>\$ 8,431,569</u>

See accompanying notes to the financial statements.



**MARTHA O'BRYAN CENTER, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Change in net assets	\$ (444,823)	\$ 832,801
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	179,028	178,014
Net change in allowance for uncollectible promises	-	9,400
Net changes in other assets and liabilities:		
Grants receivable	68,743	36,057
Other receivables	168,388	(167,902)
Unconditional promises to give	237,947	(780,726)
Prepaid expenses	15,591	(47,520)
Accounts payable	227,469	46,812
Accrued liabilities	(23,170)	166,335
	<u>429,173</u>	<u>273,271</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(163,491)	(412,260)
	<u>(163,491)</u>	<u>(412,260)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Draws on line of credit	421,740	-
Repayments of line of credit	(421,740)	-
	<u>-</u>	<u>-</u>
Net cash provided by financing activities		
Increase (decrease) in cash and cash equivalents	265,682	(138,989)
Cash and cash equivalents - beginning of year	1,034,635	1,173,624
Cash and cash equivalents - end of year	<u>\$ 1,300,317</u>	<u>\$ 1,034,635</u>
Supplemental cash flow disclosures:		
Cash payments for interest on capital lease obligations	<u>\$ -</u>	<u>\$ 417</u>

See accompanying notes to the financial statements.

**MARTHA O'BRYAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**

**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 East End Preparatory, child development, reading, 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.

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 five students with the academic foundation necessary to excel in middle 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 a fifth grade in the 2016-2017 fiscal year.

During 2014, the Center received approval to open another charter school, Explore Community School ("Explore"). Activities toward opening Explore are minimal for fiscal 2014. The Center plans to open Explore in August 2015.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Accounting Periods**

All references to 2014 and 2013 in these financial statements refer to the years ended June 30, 2014 and 2013, 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.

*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.

**MARTHA O'BRYAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2014 and 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Financial Statement Presentation (Continued)**

*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, 2014 and 2013, 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, 2014 and 2013.

**MARTHA O'BRYAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2014 and 2013**

**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, accrued liabilities and capital lease obligation 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, 2014 and 2013**

**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. Tax years that remain open for examination include years ended June 30, 2011 through June 30, 2014.

**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 29, 2014, 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, 2014 and 2013**

**NOTE 3 – SIGNIFICANT SUPPORT**

The Center receives a substantial amount of its support from various governmental agencies and from the United Way of Nashville and Middle Tennessee. 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>2014</u>	<u>2013</u>
Gross promises to give	\$ 886,192	\$ 1,124,139
Less allowance for uncollectible promises	<u>(11,667)</u>	<u>(11,667)</u>
Net promises to give	874,525	1,112,472
Promises receivable due in less than one year	<u>482,775</u>	<u>336,389</u>
Promises receivable due within one to five years	<u>\$ 391,750</u>	<u>\$ 776,083</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

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

	<u>2014</u>	<u>2013</u>
Land	\$ 1,150	\$ 1,150
Buildings and improvements	3,792,752	3,782,602
Equipment	819,408	666,068
Vehicles	133,033	133,033
Fixtures	<u>78,839</u>	<u>78,839</u>
	4,825,182	4,661,692
Less: accumulated depreciation	<u>(2,683,395)</u>	<u>(2,504,368)</u>
	<u>\$ 2,141,787</u>	<u>\$ 2,157,324</u>

**NOTE 6 – LINE OF CREDIT**

During 2013, the Center had an agreement with a local financial institution for an unsecured revolving line of credit with a maximum availability of \$300,000. During 2014, the maximum availability was increased to \$500,000. Any outstanding borrowings and all accrued interest are due in October 2015. Interest is payable monthly at the institutions prime rate of interest plus 0.75%, but in no event will the rate be less than 4%. There were no amounts outstanding under this line of credit at June 30, 2014 and 2013.

**MARTHA O'BRYAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2014 and 2013**

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2014</u>	<u>2013</u>
For subsequent fiscal years	\$ 820,264	\$ 987,624
For specific purposes:		
Thrive	129,886	53,639
Tied Together	60,066	5,000
Joyful Noise	39,443	53,024
Educational assistance	33,612	26,922
Work Ready	30,000	35,000
Freedom school	13,900	-
All others (less than \$10,000 individually in either year)	10,000	5,000
Employee infrastructure expansion	-	87,475
Neighborhood builders	-	27,409
Promise Neighborhood	-	118,734
	<u>          </u>	<u>          </u>
Total temporarily restricted net assets	<u>\$ 1,137,171</u>	<u>\$ 1,399,827</u>

There were no permanently restricted net assets at June 30, 2014 and 2013. Cash and cash equivalents included \$328,548 and \$412,203 of temporarily restricted cash at June 30, 2014 and 2013.

**NOTE 8 – LEASES**

During 2012, the Center began renting educational space from the Metropolitan Government of Nashville for its charter school, EEP. The current lease term ends June 30, 2015. The Center also leases office equipment under the terms of non-cancellable operating leases. Rent expense under all leases total \$213,708 and \$92,616 for 2014 and 2013, respectively.

Future minimum lease payments under non-cancellable leases as of June 30, 2014 are as follows:

Fiscal years ending June 30:	
2015	\$ 203,287
2016	13,636
2017	12,360
2018	5,150
2019	<u>          </u>
	<u>\$ 234,433</u>

**MARTHA O'BRYAN CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2014 and 2013**

**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 certified teachers participate in the State Employees, Teachers, and Higher Education Employees Pension Plan, a cost-sharing, multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System. The Center contributed 8.88% of covered payroll to the plan for 2014 (8.88% for 2013). All other EEP employees participate in the Metropolitan Government of Nashville and Davidson County's Division B Pension Plan, a defined benefit single-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. The Center contributed 17.12% of covered payroll for support employees to the plan for 2014 (15.938% for 2013).

The total employer expense of the Center for both of the above plans was \$169,889 and \$154,992 for 2014 and 2013, 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 \$500,588 and \$34,239 was received from the Foundation during 2014 and 2013, respectively.

**NOTE 11 – RECLASSIFICATIONS**

Certain amounts for 2013 have been reclassified to be consistent with the presentation for 2014. These reclassifications did not have a significant effect on the Center's previously reported financial position, changes in net assets, and cash flows.



## **ADDITIONAL INFORMATION**

**MARTHA O'BRYAN CENTER, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2014**

Federal or State Grantor/ Program Title/ Pass-through Grantor	Federal CFDA Number	Grantor's Number	Balance June 30, 2013	Receipts	Expenditures	Balance June 30, 2014
<b>Expenditures of Federal Awards:</b>						
U.S. Department of Education:						
Title I Grants to Local Educational Agencies (Passed through Metro Nashville Public Schools)	84.010	N/A	\$ -	\$ 127,294	\$ 127,294	\$ -
Special Education Grants to States (Passed through State of Tennessee Department of Education)	84.027	N/A	-	-	30,534	30,534
Charter Schools (Passed through State of Tennessee Department of Education)	84.282A	U282A090013	6,561	6,561	-	-
21st Century Community Learning Centers (Passed through State of Tennessee Department of Education)	84.287C *	DG13-C0000043	150,616	442,491	343,221	51,346
Fund for the Improvement of Education	84.215P	U215P110075	45,960	99,228	53,268	-
ARRA - Race to the Top Assessment Program (Passed through Tennessee College Access & Success Network)	84.395A	N/A	-	23,408	38,688	15,280
Total U.S. Department of Education			<u>203,137</u>	<u>698,982</u>	<u>593,005</u>	<u>97,160</u>
U.S. Department of Agriculture:						
State Administrative Matching Grants for Supplemental Nutrition Assistance Program (Passed through Tennessee Department of Labor & Workforce Development)	10.561	N/A	46,504	74,095	29,578	1,987
Child & Adult Care Food Program (Passed through Tennessee Department of Human Services)	10.558	03-47-50955-00-9	10,711	74,817	85,360	21,254
National School Lunch Program (Passed through Tennessee Department of Education)	10.555	N/A	11,222	131,736	157,068	36,554
Total U.S. Department of Education			<u>68,437</u>	<u>280,648</u>	<u>272,006</u>	<u>59,795</u>

**MARTHA O'BRYAN CENTER, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE (Continued)**  
**For the Year Ended June 30, 2014**

U.S. Department of Justice:

Title V Delinquency Prevention Program (Passed through Metropolitan Government of Nashville and Davidson County)	16.548	N/A	-	9,736	11,014	1,278
Byrne Criminal Justice Innovation Program	16.817	2013-AJ-BX-0011	-	-	24,850	24,850
Total U.S. Department of Justice			<u>-</u>	<u>9,736</u>	<u>35,864</u>	<u>26,128</u>

Corporation for National and Community Service:

AmeriCorps (Passed through Tennessee Department of Finance and Administration)	94.006	DG-05-01914-06 and Z-05-037379-05	<u>17,964</u>	<u>214,666</u>	<u>208,526</u>	<u>11,824</u>
Total expenditures of federal awards			<u>289,538</u>	<u>1,204,032</u>	<u>1,109,401</u>	<u>194,907</u>

**Expenditures of State Financial Assistance:**

Tennessee Department of Children Services:

Tied Together Program	N/A	GR1238698	<u>23,005</u>	<u>112,599</u>	<u>100,000</u>	<u>10,406</u>
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State of Tennessee Department of Education:

Basic Education Program Capital Outlay	N/A	N/A	-	46,000	46,000	-
LEAPs	N/A	33119-01512	<u>26,878</u>	<u>96,262</u>	<u>101,612</u>	<u>32,228</u>

Total State of Tennessee Department of Education			<u>26,878</u>	<u>142,262</u>	<u>147,612</u>	<u>32,228</u>
Total expenditures of state financial assistance			<u>49,883</u>	<u>254,861</u>	<u>247,612</u>	<u>42,634</u>
Total expenditures of federal awards and state financial assistance			<u>\$ 339,421</u>	<u>\$ 1,458,893</u>	<u>\$ 1,357,013</u>	<u>\$ 237,541</u>

\* Indicates a major program

**NOTE 1 - BASIS OF PRESENTATION**

This schedule includes the federal and state grant activity of Martha O'Bryan Center, Inc., and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.



INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Board of Directors 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, 2014, 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 29, 2014.

**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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

## 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*.

### Martha O'Bryan Center, Inc.'s Response to Findings

Martha O'Bryan Center, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Martha O'Bryan Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### 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.



Nashville, Tennessee  
December 29, 2014



INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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, 2014.

## 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 OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a significant deficiency.

Martha O'Bryan Center, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Martha O'Bryan Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Frasier, Dean + Howard, PLLC*

Nashville, Tennessee  
December 29, 2014

**MARTHA O'BRYAN CENTER, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2014**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of Martha O'Bryan Center, Inc.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Independent Auditor's 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*. No material weaknesses are reported.
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. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133. 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. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 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>
84.287C	Twenty-First Century Community Learning Centers

8. The threshold for distinguishing between Type A and B programs was \$300,000.
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, 2014**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

**SIGNIFICANT DEFICIENCIES**

**2014-001 Segregation of Duties**

**Condition:** A key member of management is an authorized check signor and has full access to the general ledger.

**Criteria:** Internal controls should be structured such that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

**Cause and Effect:** During our audit, we noted a key member of management has full access to the general ledger and is an authorized check signor.

**Recommendation:** We recommend segregating the duties surrounding cash processes to the extent possible to help prevent the possibility that unintentional or intentional errors or irregularities could exist and not be promptly detected. Our audit did not reveal any errors or irregularities resulting from this lack of segregation of duties.

**Views of Responsible Officials and Planned Corrective Actions:** Martha O'Bryan Center concurs with the deficiency. Martha O'Bryan Center has since corrected to remove the COO from having check signing ability. The Chief Executive Officer and/or the Chief Talent and Innovation Officer must review and sign checks prior to disbursement.

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

**Questioned  
Costs**  

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**DEPARTMENT OF EDUCATION**

21<sup>st</sup> Century Community Learning Centers  
CFDA 84.287C; Grant period – year ended June 30, 2014

**2014-001 Segregation of Duties**

**Significant Deficiency:** The significant deficiency at Finding 2014-001 also applies to this grant.

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**MARTHA O'BRYAN CENTER, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**For the Year Ended June 30, 2014**

**DEPARTMENT OF EDUCATION**

**FINDING 2013-001: Payroll Charges to Programs and Grants**

*Condition:* This finding was a significant deficiency stating that payroll expenses were sometimes incorrectly allocated to the wrong programs.

*Recommendation:* The auditor recommended the use of an automated time card system which would calculate hours on a daily basis and accumulate pay cycle totals for review before processing.

*Current Status:* The recommendation was adopted. No similar findings were noted in the 2014 audit.