



Donelson Christian Academy

DONELSON CHRISTIAN ACADEMY, INC.

Financial Statements
With Independent Auditors' Report

May 31, 2018 and 2017

DONELSON CHRISTIAN ACADEMY, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Donelson Christian Academy, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of Donelson Christian Academy, Inc., which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

Board of Trustees
Donelson Christian Academy, Inc.
Nashville, Tennessee

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Donelson Christian Academy, Inc. as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Lawrenceville, Georgia
August 22, 2018

DONELSON CHRISTIAN ACADEMY, INC.

Statements of Financial Position

	May 31,	
	2018	2017
ASSETS:		
Cash and cash equivalents	\$ 66,660	\$ 214,718
Investments	130,483	119,192
Accounts receivable–net	185,712	112,392
Note receivable	50,000	50,000
Prepaid expenses and other assets	94,949	101,842
Property and equipment–net	7,010,845	7,238,564
Assets held for long-term purposes	1,891	-
Total Assets	<u>\$ 7,540,540</u>	<u>\$ 7,836,708</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 795,268	\$ 725,647
Deferred revenue	384,093	381,813
Capital lease obligations	113,301	132,709
Notes payable and line of credit–net	3,767,144	3,906,179
	<u>5,059,806</u>	<u>5,146,348</u>
Net assets:		
Unrestricted	2,462,666	2,667,894
Temporarily restricted	16,177	22,466
Permanently restricted	1,891	-
	<u>2,480,734</u>	<u>2,690,360</u>
Total Liabilities and Net Assets	<u>\$ 7,540,540</u>	<u>\$ 7,836,708</u>

See notes to financial statements

DONELSON CHRISTIAN ACADEMY, INC.

Statements of Activities

Year Ended May 31,

	2018				2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:							
Tuition and fees	\$ 9,330,525	\$ -	\$ -	\$ 9,330,525	\$ 8,878,114	\$ -	\$ 8,878,114
Less financial aid and discounts	(939,497)	-	-	(939,497)	(773,335)	-	(773,335)
Net tuition and fees	8,391,028	-	-	8,391,028	8,104,779	-	8,104,779
Contributions	147,198	81,636	1,891	230,725	161,073	232,648	393,721
Auxiliary activities	337,989	-	-	337,989	340,739	-	340,739
Extracurricular activities	703,526	-	-	703,526	624,794	-	624,794
Other income	46,463	-	-	46,463	51,889	-	51,889
	<u>9,626,204</u>	<u>81,636</u>	<u>1,891</u>	<u>9,709,731</u>	<u>9,283,274</u>	<u>232,648</u>	<u>9,515,922</u>
RECLASSIFICATIONS:							
Satisfaction of purpose restrictions	87,925	(87,925)	-	-	214,435	(214,435)	-
Total Support and Revenue	<u>9,714,129</u>	<u>(6,289)</u>	<u>1,891</u>	<u>9,709,731</u>	<u>9,497,709</u>	<u>18,213</u>	<u>9,515,922</u>
OPERATING EXPENSES:							
Instruction and extracurricular activities	6,688,407	-	-	6,688,407	6,354,052	-	6,354,052
Institutional support	1,207,942	-	-	1,207,942	1,158,157	-	1,158,157
Auxiliary services	357,443	-	-	357,443	345,397	-	345,397
Plant operations and maintenance	928,846	-	-	928,846	928,814	-	928,814
Depreciation	612,238	-	-	612,238	718,509	-	718,509
Interest	144,929	-	-	144,929	149,143	-	149,143
Total Operating Expenses	<u>9,939,805</u>	<u>-</u>	<u>-</u>	<u>9,939,805</u>	<u>9,654,072</u>	<u>-</u>	<u>9,654,072</u>
Change in Net Assets from							
Operating Activities	(225,676)				(156,363)		

See notes to financial statements

DONELSON CHRISTIAN ACADEMY, INC.

Statements of Activities

Year Ended May 31,

	2018				2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
NON-OPERATING ACTIVITIES:							
Investment income	11,924	-	-	11,924	15,028	-	15,028
Gain on insurance proceeds	8,524	-	-	8,524	-	-	-
Change in Non-operating Net Assets	20,448	-	-	20,448	15,028	-	15,028
Change in Net Assets	(205,228)	(6,289)	1,891	(209,626)	(141,335)	18,213	(123,122)
Net Assets, Beginning of Year	2,667,894	22,466	-	2,690,360	2,809,229	4,253	2,813,482
Net Assets, End of Year	\$ 2,462,666	\$ 16,177	\$ 1,891	\$ 2,480,734	\$ 2,667,894	\$ 22,466	\$ 2,690,360

See notes to financial statements

DONELSON CHRISTIAN ACADEMY, INC.

Statements of Cash Flows

	Year Ended May 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (209,626)	\$ (123,122)
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	612,238	718,509
Amortization of debt issuance costs	2,941	2,941
Net realized and unrealized gains on investments	(11,509)	(11,595)
Gifts designated for long-term purposes	(1,891)	-
Changes in operating assets and liabilities:		
Accounts receivable	(73,320)	(14,561)
Prepaid expenses and other assets	6,893	(35,270)
Accounts payable and accrued expenses	69,621	(60,974)
Deferred revenue	2,280	70,752
Net Cash Provided by Operating Activities	<u>397,627</u>	<u>546,680</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(212,762)	(857,534)
Purchase of investments	(1,673)	(2,577)
Net Cash Used by Investing Activities	<u>(214,435)</u>	<u>(860,111)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable and line of credit	(2,547,647)	(868,228)
Proceeds from notes payable and line of credit	2,405,671	1,134,610
Payments on capital lease obligations	(191,165)	(227,571)
Gifts designated for long-term purposes	1,891	-
Net Cash Provided (Used) by Financing Activities	<u>(331,250)</u>	<u>38,811</u>
Net Change in Cash and Cash Equivalents	(148,058)	(274,620)
Cash and Cash Equivalents, Beginning of Year	<u>214,718</u>	<u>489,338</u>
Cash and Cash Equivalents, End of Year	<u>\$ 66,660</u>	<u>\$ 214,718</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest, none capitalized	<u>\$ 145,079</u>	<u>\$ 150,614</u>
Equipment acquisition financed via capital lease	<u>\$ 171,757</u>	<u>\$ 203,954</u>
Residual value of asset and capital lease written off	<u>\$ -</u>	<u>\$ 44,515</u>
Equipment purchased through accounts payable	<u>\$ 27,058</u>	<u>\$ 4,090</u>

See notes to financial statements

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2018 and 2017

1. NATURE OF ORGANIZATION:

Donelson Christian Academy, Inc. (the Academy) was incorporated in the state of Tennessee in 1971. The Academy is a co-educational, college preparatory school from preschool through 12th grade, taught from a nondenominational biblical worldview. The Academy prepares students to access and learn information by providing the latest in technological advancements, as well as provide extracurricular activities such as fine arts, sports, or club co-curricular activities in which 92% of high school students participate. Over 60% of the Academy's faculty hold advanced post-graduate degrees. The Academy is supported primarily via tuition, fees, and the Annual Fund. The Academy is governed by an elected board.

The Academy is classified as a publicly supported organization and, as such, is exempt from income tax under section 501(c)(3) of the Internal Revenue Code (Code) and comparable state law. Contributions to the Academy are tax deductible within limitations prescribed by the Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Academy have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A summary of significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

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 and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and in money market accounts. These accounts may, at times, exceed federally insured limits. There were no accounts exceeding federally insured limits as of May 31, 2018 and 2017. The Academy has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

ACCOUNTS RECEIVABLE

Accounts receivable represent tuition and fees which have been billed to families of students in accordance with the Academy's policy, and are reported net of any anticipated losses due to uncollectible accounts. Amounts are past due when not paid by the end of the following month. Accounts over 30 days past due are assessed a late fee of 1.5% per month until the accounts are paid in full. Management's policy regarding unpaid balance states that the Academy reserves the right to refuse a student to re-enroll for a new Academy year.

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ACCOUNTS RECEIVABLE, continued

The allowance for doubtful accounts receivable is maintained at a level that, in management's judgment, is adequate to absorb probable losses. The amount is based upon an analysis of overall receivables by management. Management's evaluation of the allowance for doubtful accounts includes, but is not limited to, the historical experience of payment patterns from the student, financial condition of the family, other known facts and circumstances, and general economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for doubtful accounts in the period in which they become known. Accounts receivable are written off when they are turned over to collections attorneys or are deemed uncollectible due to known financial issues.

NOTE RECEIVABLE

Note receivable consists of a promissory note received by the Academy in exchange for the sale of land, and is secured by the land. Management has evaluated the allowance for doubtful accounts and discount to net present value and determined that no allowance or discount was necessary as of May 31, 2018 and 2017.

INVESTMENTS

Investments in marketable securities with readily determinable fair values are reported at their estimated fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Donated investments are recorded at market value at the date of donation and thereafter carried in conformity with the stated policy.

The *Fair Value Measurements and Disclosure* topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority.

The Academy uses appropriate valuation techniques to determine fair value based on inputs available. When available, the Academy measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. The fair value of mutual funds is based on quoted net asset values of the shares held by the Academy at year-end. All investments are considered Level 1 in the fair value hierarchy and there were no changes in valuation methodologies during the year.

PROPERTY AND EQUIPMENT

Property and equipment is capitalized at its cost at the date of purchase if the cost is in excess of \$1,000. Donated property and equipment is capitalized at its fair value at the date of donation if the value is in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives, ranging from four to fifty years.

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

ASSETS HELD FOR LONG-TERM PURPOSES

Assets held for long-term purposes consist of cash and cash equivalents held for the Academy's endowment.

DEFERRED REVENUE

Deferred tuition and book fee revenue are reported as deferred revenue until such amounts have been earned.

CLASS OF NET ASSETS

The financial statements report amounts by class of net assets:

Unrestricted net assets are currently available at the discretion of the board for use in the Academy's operations, resources designated for a capital maintenance fund and interest reserve fund, and resources invested in property and equipment.

Temporarily restricted net assets are stipulated by donors for specific operating purposes, time restrictions, acquisition of property and equipment, or not currently available for use until commitments regarding their use have been fulfilled.

Permanently restricted net assets are contributed with donor restrictions that they be held in perpetuity with income used for operations. The required GAAP disclosures for endowments have not been made due to immateriality.

SUPPORT, REVENUE, AND EXPENSES

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Academy. Noncash gifts are recorded as support at the estimated fair market value on the date of the gift. Goods given to the Academy that do not have an objective basis for valuation are not recorded.

The Academy reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Academy reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long-lived assets must be maintained, the Academy reports expirations of donor restrictions when the donated or acquired assets are placed in service. Gifts-in-kind consist of property, securities, and forgiveness of indebtedness recognized at fair value on the date of the gift.

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUE, AND EXPENSES, continued

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing the program services and supporting activities of the Academy have been summarized on a functional basis in Note 9. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

3. ACCOUNTS RECEIVABLE-NET:

Accounts receivable-net consist of:

	May 31,	
	2018	2017
Tuition receivable	\$ 288,355	\$ 221,137
Less allowance for doubtful accounts	(102,643)	(108,745)
	<u>\$ 185,712</u>	<u>\$ 112,392</u>

4. INVESTMENTS:

Investments consist of:

	May 31,	
	2018	2017
Cash and cash equivalents	\$ 1,255	\$ 1,123
Equity mutual funds	92,783	112,314
Bond mutual funds	26,740	5,755
Balanced mutual funds	9,705	-
	<u>\$ 130,483</u>	<u>\$ 119,192</u>

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2018 and 2017

4. INVESTMENTS, continued:

Income on investments consists of:

	Year Ended May 31,	
	2018	2017
Interest and dividends	\$ 2,284	\$ 5,084
Realized and unrealized gains on investments	11,509	11,595
Investment management fees	(1,869)	(1,651)
	\$ 11,924	\$ 15,028

5. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consists of the following:

	May 31,	
	2018	2017
Land	\$ 570,265	\$ 570,265
Buildings and improvements	12,134,964	12,047,937
Furniture and fixtures	1,396,078	1,364,708
Equipment	3,210,013	2,943,891
	17,311,320	16,926,801
Less accumulated depreciation	(10,300,475)	(9,688,237)
Net book value of property and equipment	\$ 7,010,845	\$ 7,238,564

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2018 and 2017

6. NOTES PAYABLE AND LINE OF CREDIT-NET:

Notes payable and line of credit-net consist of the following:

	May 31,	
	2018	2017
Term loan entered into May 2014, amortized over 20 years and secured by a first priority deed of trust. The loan bears interest at a fixed rate of 3.79% for three years, a fixed rate of 4.68% for the next three years, and then a variable rate thereafter at prime rate.	\$ 3,226,187	\$ 3,369,850
Line of credit in the amount of \$700,000, at the same rates as the term loan. The outstanding balance is due and payable in January 2019; however, the line may be withdrawn at the bank's discretion prior to that date.	577,348	565,000
Note payable to the seller of property purchased by the Academy in 2014. The note bears no interest and is payable in annual installments of \$10,660 over the next year.	10,660	21,320
	3,814,195	3,956,170
Less debt issuance costs-net	(47,051)	(49,991)
Total notes payable and line of credit-net	\$ 3,767,144	\$ 3,906,179

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2018 and 2017

6. NOTES PAYABLE AND LINE OF CREDIT—NET, continued:

Maturities of notes payable and line of credit are as follows:

<u>Years Ended May 31,</u>	<u>Amounts</u>
2019	\$ 722,957
2020	138,033
2021	146,002
2022	153,966
2023	162,364
Thereafter	<u>2,490,873</u>
	<u><u>\$ 3,814,195</u></u>

7. NET ASSETS:

Net assets consist of:

	<u>May 31,</u>	
	<u>2018</u>	<u>2017</u>
Unrestricted:		
Undesignated	\$ (667,734)	\$ (531,782)
Equity in property and equipment	<u>3,130,400</u>	<u>3,199,676</u>
	<u>2,462,666</u>	<u>2,667,894</u>
Temporarily restricted:		
Mission trips	3,582	14,695
Choir	8,622	2,622
Other	<u>3,973</u>	<u>5,149</u>
	<u>16,177</u>	<u>22,466</u>
Permanently restricted:		
Endowment	<u>1,891</u>	<u>-</u>
	<u><u>\$ 2,480,734</u></u>	<u><u>\$ 2,690,360</u></u>

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2018 and 2017

8. CAPITAL LEASES:

The Academy is obligated under capital leases that expire at various dates through July 2019, for certain equipment. The gross amount of equipment and related accumulated amortization recorded under the capital leases was as follows:

	May 31,	
	2018	2017
Equipment	\$ 215,757	\$ 247,954
Less accumulated amortization	(73,828)	(72,407)
	<u>\$ 141,929</u>	<u>\$ 175,547</u>

Future minimum lease payments under future minimum capital lease payments as of May 31, 2018, are:

<u>Years Ended May 31,</u>	
2019	\$ 99,450
2020	16,703
	<u>116,153</u>
Less amount representing interest	<u>(2,852)</u>
Present value of net minimum capital lease payments	<u>\$ 113,301</u>

The rent expense for the years ended May 31, 2018 and 2017, was \$22,540 and \$21,596, respectively.

9. FUNCTIONAL EXPENSE ALLOCATION:

The Academy's expenses are recorded and reported on a natural classification basis in the statements of activities. In order to report the Academy's expenses on a functional basis, the costs of providing various program services and supporting activities are to be allocated among the program services and supporting activities benefited.

Expenses are allocated as follows:

	Year Ended May 31,	
	2018	2017
Program	\$ 8,688,913	\$ 8,452,346
General and administrative	1,146,937	1,099,716
Fund-raising	103,955	102,010
	<u>\$ 9,939,805</u>	<u>\$ 9,654,072</u>

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2018 and 2017

10. RETIREMENT PLAN:

The Academy has a 403(b) plan for eligible employees. The Academy did not make any discretionary contributions to the plan for the years ended May 31, 2018 and 2017.

11. COMMITMENTS AND CONTINGENCIES:

The Academy has entered into a contract for certain facilities services, under which it is obligated to pay \$100 monthly through March 2021.

12. RELATED PARTY TRANSACTIONS:

The Academy had services performed during the year ended May 31, 2017, by a company owned by a board member. Payments made to the company during the years ended May 31, 2018 and 2017, amounted to \$0 and \$408,042, respectively. The total amount payable to the company was \$0 as of May 31, 2018 and 2017. The total amount donated to the Academy by the company was \$3,250 and \$86,972 for the years ended May 31, 2018 and 2017, respectively.

13. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through August 22, 2018, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.