

# Financial Statements



DONELSON CHRISTIAN ACADEMY

June 30, 2007

**DONELSON CHRISTIAN ACADEMY, INC.**

**Financial Statements**

**June 30, 2007**

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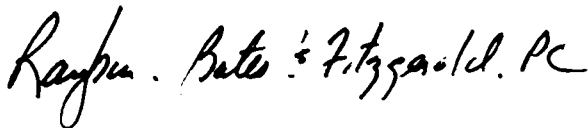
Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Donelson Christian Academy, Inc. (the Academy) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Academy's June 30, 2006 financial statements and, in our report dated September 13, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



October 8, 2007

# DONELSON CHRISTIAN ACADEMY, INC.

## Statement of Financial Position

June 30, 2007 (With Comparative Totals for 2006)

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents (note 2)	\$ 1,054,855	1,142,342
Cash held in custody for others	117,400	84,658
Total cash and cash equivalents	<u>1,172,255</u>	<u>1,227,000</u>
Accounts receivable, net of allowance for doubtful accounts of \$25,000 at June 30, 2007 and \$32,000 at June 30, 2006	49,947	90,362
Prepaid expenses and other assets	113,944	144,237
Investments (note 3)	23,917	20,532
Property and equipment, net (notes 4, 5 and 7)	7,729,407	7,804,592
Fair value of swap arrangement (note 6)	<u>84,449</u>	<u>119,614</u>
Total assets	<u>\$ 9,173,919</u>	<u>9,406,337</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 433,866	427,862
Deposits held in custody for others	117,400	84,658
Deferred revenue	819,990	873,650
Long-term debt (note 5)	4,500,000	4,800,000
Capital lease obligations (note 7)	27,426	39,425
Total liabilities	<u>5,898,682</u>	<u>6,225,595</u>
Net assets - Unrestricted	<u>3,275,237</u>	<u>3,180,742</u>
Total liabilities and net assets	<u>\$ 9,173,919</u>	<u>9,406,337</u>

See accompanying notes to financial statements.

# DONELSON CHRISTIAN ACADEMY, INC.

## Statement of Activities

For the Year Ended June 30, 2007 (With Comparative Totals for 2006)

	2007			2006
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
Revenue and other support:				
Tuition and fees	\$ 5,610,125	-	5,610,125	5,177,169 <sup>E</sup>
Contributions	232,699	8,000	240,699	207,371
Auxiliary activities	266,497	-	266,497	291,287 <sup>E</sup>
Other sources	114,185	20,000	134,185	76,147
Net assets released from restrictions (note 8)	<u>28,000</u>	<u>(28,000)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>6,251,506</u>	<u>-</u>	<u>6,251,506</u>	<u>5,751,974</u>
Expenses:				
Program services:				
Instruction and student activities	4,309,824	-	4,309,824	4,129,570
Auxiliary activities	<u>224,077</u>	<u>-</u>	<u>224,077</u>	<u>206,799</u>
Total program services	<u>4,533,901</u>	<u>-</u>	<u>4,533,901</u>	<u>4,336,369</u>
Supporting services:				
General administration	1,573,549	-	1,573,549	1,431,261
Fundraising	<u>14,396</u>	<u>-</u>	<u>14,396</u>	<u>10,015</u>
Total supporting services	<u>1,587,945</u>	<u>-</u>	<u>1,587,945</u>	<u>1,441,276</u>
Total expenses	<u>6,121,846</u>	<u>-</u>	<u>6,121,846</u>	<u>5,777,645</u>
(Decrease) increase in net assets from swap arrangement fair value adjustment	<u>(35,165)</u>	<u>-</u>	<u>(35,165)</u>	<u>148,311</u>
Change in net assets	<u>94,495</u>	<u>-</u>	<u>94,495</u>	<u>122,640</u>
Net assets at beginning of year	<u>3,180,742</u>	<u>-</u>	<u>3,180,742</u>	<u>3,058,102</u>
Net assets at end of year	<u>\$ 3,275,237</u>	<u>-</u>	<u>3,275,237</u>	<u>3,180,742</u>

See accompanying notes to financial statements.

# DONELSON CHRISTIAN ACADEMY, INC.

## Statement of Cash Flows

For the Year Ended June 30, 2007 (With Comparative Totals for 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 94,495	122,640
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	489,958	458,938
Gains on investments	(2,488)	(1,619)
Provision for doubtful accounts	12,868	5,742
Fair value adjustment of swap arrangement	35,165	(148,311)
Decrease (increase) in accounts receivable	27,547	(33,545)
Decrease (increase) in prepaid expenses and other assets	30,293	(13,839)
Increase in accounts payable and accrued expenses	6,004	70,524
Increase in deposits held in custody for others	32,741	18,591
(Decrease) increase in deferred revenue	(53,659)	182,914
Net cash provided by operating activities	<u>672,924</u>	<u>662,035</u>
Cash flows from investing activities:		
Purchase of property and equipment	(414,773)	(461,209)
Purchase of investments	(897)	(3,000)
Net cash used by investing activities	<u>(415,670)</u>	<u>(464,209)</u>
Cash flows from financing activities:		
Payments on long-term debt	(300,000)	(200,000)
Payments on capital lease obligations	(11,999)	(11,301)
Net cash used by financing activities	<u>(311,999)</u>	<u>(211,301)</u>
Net decrease in cash and cash equivalents	(54,745)	(13,475)
Cash and cash equivalents at beginning of year	<u>1,227,000</u>	<u>1,240,475</u>
Cash and cash equivalents at end of year	<u>\$ 1,172,255</u>	<u>1,227,000</u>

See accompanying notes to financial statements.

# DONELSON CHRISTIAN ACADEMY, INC.

## Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies:

Organized in 1971, Donelson Christian Academy, Inc. (the Academy) provides classes from pre-kindergarten through high school.

The financial statements of the Academy have been prepared on the accrual basis following Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. The significant accounting policies followed are described below to enhance the usefulness of the financial statements.

Financial Statement Presentation

The Academy reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

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.

Accounts Receivable

Tuition is financed to students by short-term unsecured accounts receivable. Accounts over 30 days past due are assessed a late fee of \$20 per month until the accounts are paid in full. The Academy periodically reviews all delinquent accounts and charges off accounts after collection efforts are exhausted.

The allowance for doubtful accounts represents an amount which, in management's judgment, will be adequate to absorb potential uncollectible accounts receivable. In determining the adequacy of the allowance, management considers general economic conditions, the customer's financial ability and the age of the receivable.

Investments

Investments in marketable securities with readily determinable fair values and investments in debt securities are reported at their estimated fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. The estimated fair market values are determined based on the quoted market value of the securities.

# DONELSON CHRISTIAN ACADEMY, INC.

## Notes to Financial Statements, (Continued)

June 30, 2007

(1) Summary of Significant Accounting Policies: (Continued)

Property and Equipment

Property and equipment is stated at cost. Depreciation and amortization is provided over the assets' estimated useful lives using the straight-line method. Donated property and equipment is recorded at estimated market value at the date of the gift.

Deferred Revenue

Tuition and book fees are reported as deferred revenue until such amounts have been earned.

Revenue Recognition

Tuition and related fees are recognized as income during the school year which generally runs from September to June.

In-kind contributions are recorded based on their estimated fair value at the date of the contribution.

Financial Instruments

The Academy employs an interest rate swap agreement, to manage market risk associated with outstanding variable-rate debt. Derivative financial instruments are reported at fair value with any resulting gain or loss recognized as a non-operating item in the Statements of Activities. Periodic net cash settlement amounts with counterparties are accounted for as adjustments to interest expense on the related debt.

Parties to interest rate swap agreements are subject to market risk for changes in interest rates as well as risk of credit loss in the event of nonperformance by the counterparty. The Academy deals only with high-quality counterparties that meet rating criteria for financial stability and credit worthiness.

Income Tax Status

The Internal Revenue Service has granted Donelson Christian Academy, Inc. exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC) and has classified it as an organization that is not a private foundation as defined in Section 509(a) of the IRC. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Donated Materials

Donated assets, when received, are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt.

Reclassifications

Certain amounts previously reported have been reclassified to conform to the 2007 presentation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.



DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements, (Continued)

June 30, 2007

(1) Summary of Significant Accounting Policies: (Continued)

Advertising Costs

The Academy expenses all advertising costs as they are incurred.

Comparative Data

The financial statements and notes include certain comparative information as of and for the year ended June 30, 2006. With respect to the statement of activities, such prior year information is not presented by net asset class. Accordingly, such information should be read in conjunction with the Academy's financial statements for the year ended June 30, 2006 from which the summarized information was derived.

(2) Cash:

At June 30, 2007 and 2006, the Academy had cash in banks in excess of federal deposit insurance limits of \$511,404 and \$497,771, respectively.

(3) Investments:

Investments in equity securities consist of the following at June 30, 2007 and 2006:

	<u>Cost</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
Balance at June 30, 2007	\$ <u>25,297</u>	<u>(1,380)</u>	<u>23,917</u>
Balance at June 30, 2006	\$ <u>24,011</u>	<u>(3,479)</u>	<u>20,532</u>

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements, (Continued)

June 30, 2007

(4) Property and Equipment:

Property and equipment consists of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land	\$ 669,060	765,921
Buildings and structures	10,561,221	10,372,288
Furniture and fixtures	686,811	671,867
Books	434,757	372,750
Construction in progress	14,044	9,277
Equipment	<u>1,985,323</u>	<u>1,744,340</u>
	14,351,216	13,936,443
Less accumulated depreciation	<u>(6,621,809)</u>	<u>(6,131,851)</u>
	<u>\$ 7,729,407</u>	<u>7,804,592</u>

Depreciation expense was \$489,958 and \$458,938 for the years ended June 30, 2007 and 2006, respectively.

(5) Long-Term Debt:

The Academy issued \$5,200,000 in tax-exempt revenue bonds (Donelson Christian Academy Project Series 2003) through an industrial development board, and has a loan agreement through the industrial development board. The bonds were issued to refinance certain indebtedness incurred to finance improvements to the Academy's campus, including expansion of the education facility. The loan is payable in monthly installments of interest through the March 1, 2023 maturity date. The loan bears interest at a variable weekly rate, which is the minimum interest rate which the Remarketing Agent determines, taking into account financial market conditions, would be required to sell the bonds on such date. The interest rate was 3.88% as of June 30, 2007. As of June 30, 2007 and 2006, the balance of the loan was \$4,500,000 and \$4,800,000, respectively.

As security for repayment of the bonds, the Academy has an irrevocable letter of credit in the amount of \$5,249,863 expiring on March 13, 2008. In connection with the letter of credit, the Academy has entered into a reimbursement agreement. The agreement required the Academy to pay an initial letter of credit fee of .75% of the stated amount of the letter of credit for the initial year, and requires additional quarterly letter of credit fees computed at a rate of .70% per annum of the stated amount of the letter of credit. Under the agreement, repayment of the obligations of the Academy is secured by the Academy's real property.

**DONELSON CHRISTIAN ACADEMY, INC.**

**Notes to Financial Statements, (Continued)**

**June 30, 2007**

**(5) Long-Term Debt: (Continued)**

The letter of credit agreement requires, among other things, that the Academy comply with restrictive loan covenants. Under the covenants, the Academy is required to maintain a debt service coverage ratio of not less than 1.1 to 1.0 and limitations on capital expenditures. As of June 30, 2007, the Academy had not exceeded the limits on capital expenditures for the year, and therefore, was in compliance with the debt covenant.

The letter of credit agreement requires mandatory redemption of the principal amount of the bonds. Quarterly principal payments assuming eighty equal payments of the remaining principal are required and continue until March 2023, when a final payment of the outstanding principal amount is due. Future principal maturities are as follows:

Year Ended <u>June 30,</u>	
2008	\$ 245,000
2009	245,000
2010	245,000
2011	245,000
2012	245,000
Thereafter	<u>3,275,000</u>
	<u>\$ 4,500,000</u>

During the years ended June 30, 2007 and 2006, interest expense of \$152,800 and \$154,184, respectively and amortization of letter of credit and other loan fees of \$47,064 and \$46,976, respectively is included in the accompanying statement of activities as general administration.

**(6) Interest Rate Swap Arrangement:**

To manage variable interest rate exposure for its long-term debt, the Academy entered into an interest rate swap arrangement with a bank. The notional amount of the swap arrangement is \$3,500,000 which declines to \$2,250,000 on April 1, 2008. The swap arrangement is scheduled to expire on April 1, 2013. Under the arrangement, the Academy receives a floating rate based on 68% of the London Inter-Bank Offering Rate (LIBOR), as determined in weekly intervals, and pays a fixed rate of 2.96%.

The fair value of this swap arrangement is the estimated amount that the Academy would pay or receive to terminate this contract as of the report date. For the year ended June 30, 2007, the estimated fair value loss of this swap arrangement was \$35,165, which resulted in an asset of \$84,449 on the accompanying statement of financial position at June 30, 2007. For the year ended June 30, 2006, the estimated fair value gain of this swap agreement was \$148,311, which resulted in an asset of \$119,614 included on the accompanying statement of financial position at June 30, 2006.

**DONELSON CHRISTIAN ACADEMY, INC.**

**Notes to Financial Statements, (Continued)**

**June 30, 2007**

**(7) Capital Lease Obligations:**

All noncancelable leases with an initial term greater than one year have been categorized as capital or operating leases in conformity with the definitions in SFAS No. 13, *Accounting for Leases*. Equipment under capital lease obligations of \$60,508 has been included in property and equipment as of June 30, 2007. The related accumulated amortization balance totaled \$35,296 as of June 30, 2007. Amortization of equipment under capital lease obligations is included in depreciation expense. Future minimum payments, by fiscal year and in the aggregate, under the capital lease obligations are as follows:

Year Ended <u>June 30,</u>	
2008	\$ 14.037
2009	14.037
2010	<u>1.171</u>
Total minimum lease payments	29,245
Amount representing interest	<u>(1,819)</u>
Present value of net minimum lease payments	<u>\$ 27,426</u>

**(8) Net Assets Released from Restrictions:**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. During the year ended June 30, 2007, purpose restrictions were accomplished for temporarily restricted net assets in the amount of \$28,000, which consisted of \$8,000 for capital campaign principal payments and \$20,000 in expenses related to a grant received to establish online courses at the Academy.

**(9) Risks and Uncertainties:**

The Academy utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

**DONELSON CHRISTIAN ACADEMY, INC.**

**Notes to Financial Statements, (Continued)**

**June 30, 2007**

(10) Supplemental Cash Flow Disclosure:

During the years ended June 30, 2007 and 2006, the following cash flows transactions occurred:

	<u>2007</u>	<u>2006</u>
Interest paid	\$ <u>151,402</u>	<u>152,793</u>

(11) Tax Sheltered Annuity Plan:

The Academy has a tax sheltered annuity plan for employees over age twenty and one-half who have completed six months of service. The Academy matches fifty percent of voluntary employee salary deferrals up to the first six percent of compensation deferred by a plan participant. For the years ended June 30, 2007 and 2006 the Academy's matching totaled \$78,004 and \$69,921, respectively.

(12) Functional Allocation of Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(13) Intentions to Give:

As of June 30, 2007, the Academy has unfulfilled pledges from contributors. Such pledges are considered intentions to give. As they are not considered unconditional promises to give, they are not recognized until collected.

(14) Advertising Costs:

Advertising costs were \$11,194 and \$11,102 for the years ended June 30, 2007 and 2006, respectively.