



**DONELSON CHRISTIAN
ACADEMY, INC.**

Financial Statements
With Independent Auditors' Report

May 31, 2016 and 2015

DONELSON CHRISTIAN ACADEMY, INC.

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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, 2016 and 2015, 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 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 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, 2016 and 2015, 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

Atlanta, Georgia
August 12, 2016

DONELSON CHRISTIAN ACADEMY, INC.

Statements of Financial Position

	May 31,	
	2016	2015
ASSETS:		
Cash and cash equivalents	\$ 489,338	\$ 406,365
Accounts receivable–net	97,831	112,683
Note receivable	50,000	-
Investments	105,020	107,647
Prepaid expenses and other assets	119,504	124,286
Property and equipment–net	6,936,010	7,306,034
Total Assets	<u>\$ 7,797,703</u>	<u>\$ 8,057,015</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 782,531	\$ 698,001
Deferred revenue	311,061	257,496
Capital lease obligations	200,841	384,997
Notes payable and line of credit	3,689,788	3,922,031
	<u>4,984,221</u>	<u>5,262,525</u>
Net assets:		
Unrestricted	2,809,229	2,764,314
Temporarily restricted	4,253	30,176
	<u>2,813,482</u>	<u>2,794,490</u>
Total Liabilities and Net Assets	<u>\$ 7,797,703</u>	<u>\$ 8,057,015</u>

See notes to financial statements

DONELSON CHRISTIAN ACADEMY, INC.

Statements of Activities

	Year Ended May 31,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Tuition and fees	\$ 8,341,321	\$ -	\$ 8,341,321	\$ 8,004,204	\$ -	\$ 8,004,204
Less financial aid and discounts	(640,394)	-	(640,394)	(654,523)	-	(654,523)
Net tuition and fees	7,700,927	-	7,700,927	7,349,681	-	7,349,681
Contributions	142,130	225,945	368,075	139,078	48,243	187,321
Auxiliary activities	301,627	-	301,627	247,379	-	247,379
Extracurricular activities	747,033	-	747,033	772,792	-	772,792
Other income	13,916	-	13,916	21,937	-	21,937
	<u>8,905,633</u>	<u>225,945</u>	<u>9,131,578</u>	<u>8,530,867</u>	<u>48,243</u>	<u>8,579,110</u>
RECLASSIFICATIONS:						
Satisfaction of purpose restrictions	251,868	(251,868)	-	70,683	(70,683)	-
Total Support and Revenue	<u>9,157,501</u>	<u>(25,923)</u>	<u>9,131,578</u>	<u>8,601,550</u>	<u>(22,440)</u>	<u>8,579,110</u>
OPERATING EXPENSES:						
Instruction and extracurricular activities	5,997,832	-	5,997,832	5,600,887	-	5,600,887
Institutional support	1,134,183	-	1,134,183	1,107,273	-	1,107,273
Auxiliary services	345,191	-	345,191	284,014	-	284,014
Plant operations and maintenance	799,143	-	799,143	771,767	-	771,767
Depreciation	657,728	-	657,728	728,875	-	728,875
Interest	153,591	-	153,591	168,656	-	168,656
Total Operating Expenses	<u>9,087,668</u>	<u>-</u>	<u>9,087,668</u>	<u>8,661,472</u>	<u>-</u>	<u>8,661,472</u>
Change in Net Assets from Operating Activities	<u>69,833</u>			<u>(59,922)</u>		
NON-OPERATING ACTIVITIES:						
Investment income	(2,627)	-	(2,627)	4,647	-	4,647
Loss on disposal of equipment	(22,291)	-	(22,291)	(13,510)	-	(13,510)
Change in Non-operating Net Assets	<u>(24,918)</u>	<u>-</u>	<u>(24,918)</u>	<u>(8,863)</u>	<u>-</u>	<u>(8,863)</u>
Change in Net Assets	44,915	(25,923)	18,992	(68,785)	(22,440)	(91,225)
Net Assets, Beginning of Year	<u>2,764,314</u>	<u>30,176</u>	<u>2,794,490</u>	<u>2,833,099</u>	<u>52,616</u>	<u>2,885,715</u>
Net Assets, End of Year	<u>\$ 2,809,229</u>	<u>\$ 4,253</u>	<u>\$ 2,813,482</u>	<u>\$ 2,764,314</u>	<u>\$ 30,176</u>	<u>\$ 2,794,490</u>

See notes to financial statements

DONELSON CHRISTIAN ACADEMY, INC.

Statements of Cash Flows

	Year Ended May 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 18,992	\$ (91,225)
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Depreciation	657,728	728,876
Net realized and unrealized losses on investments	8,804	428
Non-cash contributions	-	(10,825)
Loss on disposal of property and equipment	22,291	13,510
Changes in operating assets and liabilities:		
Accounts receivable	14,852	17,005
Prepaid expenses and other assets	4,782	8,557
Accounts payable and accrued expenses	84,530	(60,617)
Deferred revenue and deposits	53,565	(61,730)
Net Cash Provided by Operating Activities	<u>865,544</u>	<u>543,979</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(559,995)	(351,946)
Purchase of investments	(6,177)	(5,065)
Proceeds from sale of property and equipment	200,000	500
Net Cash Used by Investing Activities	<u>(366,172)</u>	<u>(356,511)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable and line of credit	(768,007)	(421,027)
Proceeds from notes payable and line of credit	535,764	547,694
Payments on capital lease obligations	(184,156)	(200,330)
Net Cash Used by Financing Activities	<u>(416,399)</u>	<u>(73,663)</u>
Net Change in Cash and Cash Equivalents	82,973	113,805
Cash and Cash Equivalents, Beginning of Year	<u>406,365</u>	<u>292,560</u>
Cash and Cash Equivalents, End of Year	<u>\$ 489,338</u>	<u>\$ 406,365</u>
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	\$ 154,908	\$ 169,772
Donated vehicle	\$ -	\$ 10,825
Equipment acquisition financed via capital lease	\$ -	\$ 44,000
Property sold with note receivable	<u>\$ 50,000</u>	<u>\$ -</u>

See notes to financial statements

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2016 and 2015

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. 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, 2016 and 2015

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.

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 Academy uses appropriate valuation techniques to determine fair value based on inputs available. The levels are defined as follows: Level 1- based on quoted prices for identical assets in active markets; Level 2- based on observable inputs other than quoted prices in active markets; and Level 3- based on significant unobservable inputs. 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.

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.

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASS OF NET ASSETS, continued

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.

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. During the year ended May 31, 2015, the Academy received a donated vehicle, which the Academy considers to have an objective basis for valuation.

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.

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.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of May 31, 2016 and 2015, the Academy had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

The Academy files information tax returns in the U.S. and various states. The Academy is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2013.

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2016 and 2015

3. ACCOUNTS RECEIVABLE—NET:

Accounts receivable—net consist of:

	May 31,	
	2016	2015
Tuition receivable	\$ 199,415	\$ 232,066
Less allowance for doubtful accounts	(101,584)	(119,383)
	\$ 97,831	\$ 112,683

4. INVESTMENTS:

Investments consist of:

	May 31,	
	2016	2015
Equity mutual funds	\$ 83,870	\$ 82,692
Bond mutual funds	5,512	8,218
Balanced mutual funds	13,200	16,737
Money market mutual funds	2,438	-
	\$ 105,020	\$ 107,647

Income on investments consists of:

	Year Ended May 31,	
	2016	2015
Interest and dividends	\$ 7,697	\$ 7,222
Realized and unrealized losses on investments	(8,804)	(428)
Investment management fees	(1,520)	(2,147)
	\$ (2,627)	\$ 4,647

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2016 and 2015

5. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net consists of the following:

	May 31,	
	2016	2015
Land	\$ 570,265	\$ 803,629
Buildings and improvements	10,969,893	10,763,389
Furniture and fixtures	1,310,501	1,298,975
Equipment	3,078,448	2,985,193
	15,929,107	15,851,186
Less accumulated depreciation	(9,370,367)	(8,716,640)
	6,558,740	7,134,546
Construction in progress	377,270	171,488
	\$ 6,936,010	\$ 7,306,034

6. NOTES PAYABLE AND LINE OF CREDIT:

Notes payable and line of credit consist of the following:

	May 31,	
	2016	2015
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.	\$ 3,507,044	\$ 3,639,391
Line of credit in the amount of \$300,000, at the same rates as the term loan. The outstanding balance is due and payable in May 2018; however, the line may be withdrawn at the bank's discretion prior to that date.	150,764	240,000
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 three years.	31,980	42,640
	\$ 3,689,788	\$ 3,922,031

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2016 and 2015

6. NOTES PAYABLE AND LINE OF CREDIT, continued:

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

<u>Years Ended May 31,</u>	<u>Amounts</u>
2017	\$ 299,340
2018	153,970
2019	159,575
2020	154,425
2021	160,779
Thereafter	<u>2,761,699</u>
	<u><u>\$ 3,689,788</u></u>

7. NET ASSETS:

Net assets consist of:

	<u>May 31,</u>	
	<u>2016</u>	<u>2015</u>
Unrestricted:		
Undesignated	\$ (236,152)	\$ (234,692)
Equity in property and equipment	<u>3,045,381</u>	<u>2,999,006</u>
	<u>2,809,229</u>	<u>2,764,314</u>
Temporarily restricted:		
Soccer field	-	25,210
Other	<u>4,253</u>	<u>4,966</u>
	<u>4,253</u>	<u>30,176</u>
	<u><u>\$ 2,813,482</u></u>	<u><u>\$ 2,794,490</u></u>

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2016 and 2015

8. OPERATING AND 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,	
	2016	2015
Equipment	\$ 867,191	\$ 867,191
Less accumulated amortization	(659,772)	(513,801)
	\$ 207,419	\$ 353,390

Future minimum lease payments under various operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of May 31, 2016, are:

<u>Years Ended May 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2017	\$ 186,552	\$ 1,116
2018	10,230	1,116
2019	10,230	1,116
2020	1,705	1,116
	208,717	\$ 4,464
Less amount representing interest	(7,876)	
Present value of net minimum capital lease payments	\$ 200,841	

The rent expense for the years ended May 31, 2016 and 2015, was \$42,042 and \$14,250, respectively.

DONELSON CHRISTIAN ACADEMY, INC.

Notes to Financial Statements

May 31, 2016 and 2015

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,	
	2016	2015
Program	\$ 7,889,066	\$ 7,323,836
General and administrative	1,089,476	1,226,038
Fund-raising	109,126	111,598
	<u>\$ 9,087,668</u>	<u>\$ 8,661,472</u>

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, 2016 and 2015.

11. COMMITMENTS AND CONTINGENCIES:

The Academy has entered into a contract for certain utilities, under which it is obligated to pay \$2,750 monthly through March 2018.

12. RELATED PARTY TRANSACTIONS:

The Academy had services performed during the years ended May 31, 2016 and 2015, by a company owned by a board member. Payments made to the company during the years ended May 31, 2016 and 2015, amounted to \$173,511 and \$94,367, respectively. The total amount payable to the company was \$88,948 and \$36,671 as of May 31, 2016 and 2015, respectively. The total amount donated to the Academy by the company was \$39,258 and \$2,294 for the years ended May 31, 2016 and 2015, respectively.

13. SUBSEQUENT EVENTS:

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

In June 2016, the Academy entered into a capital lease obligation for computer equipment. Future monthly payments are \$8,765 for 24 months.