

INTREPID COLLEGE PREP
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2014

INTREPID COLLEGE PREP

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Independent Auditor's Report

To the Board of Directors
Intrepid College Prep
Antioch, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Intrepid College Prep (the "School"), as of and for the period from January 3, 2012 (inception) through June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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 opinions 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Intrepid College Prep as of June 30, 2014 and the respective changes in financial position for the period from January 3, 2012 (inception) through June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Intrepid College Prep's basic financial statements. The nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury's *Audit Manual for Local Governmental Units and Other Organizations* and are also not a required part of the basic financial statements.



To the Board of Directors
Intrepid College Prep

The nonmajor fund financial statements and the schedules of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor fund financial statements and the schedules of expenditures of federal awards and state financial assistance are fairly stated, in all material respects, in relation to the basic 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 31, 2014, on our consideration of the School'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 the School's internal control over financial reporting and compliance.

Crosslin + Associates, P.C.

Nashville, Tennessee

December 31, 2014

INTREPID COLLEGE PREP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Intrepid College Prep's annual financial performance provides an overview of the School's financial activities for the period ended from January 3, 2012 (inception) through June 30, 2014. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the School exceeded its liabilities by \$249,091
- Net position increased \$249,091 during the period
- Total revenues of \$1,649,565 were comprised of Federal and State Pass-through Funds- 26%, District Funds- 44%, and Charitable Giving/Other- 30%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of a series of financial statements, notes to those statements and supplementary information. The statements are organized so that the reader can understand the School as a whole and then proceed to a detailed look at specific financial activities of the School.

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Position and Statement of Activities:

In general, users of these financial statements want to know if the School is better off or worse off as a result of the period's activities. The Statement of Net Position and Statement of Activities report information about the School as a whole and about the School's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current period's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 9.

The Statement of Net Position reports the School's net position (total assets less total liabilities). (The School has no deferred inflows or outflows of resources at June 30, 2014). Private sector entities would report retained earnings. The School's net position balance at period end represents available resources for future growth. The Statement of Activities reports the change in net position as a result of activity during the period. Private sector entities have a similar report titled statement of operations, which reports net income. It provides the user a tool to assist in determining the direction of the School's financial health during the period. Users will want to consider non-financial factors as well as the financial data in arriving at a conclusion regarding the overall health of the School.

INTREPID COLLEGE PREP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

REPORTING THE SCHOOL'S FUNDS

Fund Financial Statements:

The School's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 11. They provide detailed information about the School's most significant funds, not the School as a whole. Funds are established by the School to help manage money for particular purposes and compliance with various donor and grant provisions.

The School's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at period-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the school wide financial statements to report on the School as a whole. The relationship between governmental activities, as reported in the Statement of Net Position and the Statement of Activities, and governmental funds, as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances is reconciled in the basic financial statements on pages 12 and 14.

SCHOOL WIDE FINANCIAL ANALYSIS

Net Position:

The School's assets exceeded the School's liabilities at the close of the period, resulting in net position of \$249,091. The School's net position includes \$276,324 of cash. The cash is available to meet the School's ongoing activities. A portion of cash, \$9,000, is restricted for specific purposes.

As of June 30, 2014, the School had invested \$307,272 in capital assets. This investment includes building and improvements for instructional purposes and instructional and support furniture. Additional information on property and equipment is located in Note C to the financial statements.

The School has debt in the amount of \$250,000. This debt was used to fund certain capital purchases and improvements. See Note D to the financial statements for further information.

INTREPID COLLEGE PREP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

A schedule of the School's net position as of June 30, 2014, is as follows:

	2014
Current assets	\$283,529
Capital assets	<u>307,272</u>
Total assets	<u>590,801</u>
Current liabilities	91,710
Long-term debt, payable within one year	<u>250,000</u>
Total liabilities	<u>341,710</u>
Net position:	
Net investment in capital assets	57,272
Restricted - expendable for special purposes	9,000
Unrestricted	<u>182,819</u>
Total net position	<u>\$249,091</u>

The School had no deferred outflows or inflows of resources at June 30, 2014. The School's total net position increased \$249,091 during the period. The increase in the School's net position indicates that the School had more incoming revenues than outgoing expenses during the period. Total revenues generated from government grants, District funding, foundation grants and donations were \$1,621,729 during the period. The overall increase in net position was expected since the School's revenue was properly budgeted to cover expenses during the period. At June 30, 2014, the School's unrestricted net position was \$182,819.

A schedule of the School's revenue and expenses for the period from January 3, 2012 (inception) through June 30, 2014, is as follows. The schedule is for the School as a whole, not for the governmental funds.

	2014
Revenues:	
District funding	\$ 729,905
Federal and state grants	422,558
Contributions	469,266
Other	<u>27,836</u>
Total revenues	<u>1,649,565</u>

INTREPID COLLEGE PREP
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

	2014
Expenses:	
Employee compensation	\$ 646,796
Occupancy	91,839
Transportation	58,922
Depreciation	34,953
Insurance	21,117
Office expense	40,782
Interest	10,913
Instructional	60,065
Professional services	216,290
Food services	77,263
Organizational development	116,734
Other expenses	24,800
Total expenses	1,400,474
Change in net position	\$ 249,091

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the balance sheet on page 11 reported a combined fund balance of \$191,819. The majority of the School's total funds are in the General Fund, which is the chief operating fund of the School. The School has one other major fund consisting of the Federal and State Grants Fund and one nonmajor fund consisting of the Restricted Contribution Fund.

Due to different basis of accounting, there is a difference between the amounts reported under the School's funds and the amounts reported as school wide. For the June 30, 2014 period end, the differences consist of capital assets and debt, which are not reported in the School's funds.

SCHOOL ACTIVITIES

Intrepid College Preparatory Charter School (the "School") opened in July 2013 with fifth grade and is on track to develop a highly successful program to serve students in grades 5 - 12 residing in Nashville's lowest income and most educationally underserved communities in Southeast Nashville. Our mission is to equip all students in grades five through twelve with the academic foundation, financial literacy, and ethical development necessary to excel in selective colleges, earn professional opportunities, and demonstrate positive leadership.

Intrepid College Prep rose to become a Top 3 literacy program in Tennessee for growth and achievement in its first year. Our success is based on a literacy-rich school culture defined by urgency, rigor, and joy. Our academic program is focused on reading great books, developing critical thinking skills, and building character. Intrepid is the only school in the state of Tennessee with a fifth through twelfth grade financial literacy curriculum designed to gradually release 100% of graduates to financial independence in college. The School was founded by Mia Howard with the support of the Tennessee Charter School Incubator and Building Excellent Schools. Howard designed Intrepid College Prep to close two gaps - the academic achievement gap and the intergenerational wealth gap - in low-income and immigrant communities.

INTREPID COLLEGE PREP
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

Now in its second year, Intrepid is poised to become a proof point in Southeast Nashville that demographics do not equal destiny. Over ninety percent are zoned to under-performing neighborhood middle schools. Eighty-one percent of our students qualify for federal free or reduced price meals. Two-in-three students speak English as a second language. Yet in spite of these seemingly insurmountable odds coupled with the daily, harsh realities faced by most youth living in low-income, high-risk neighborhoods, the School students emulate the academic success of other, no-excuses schools founded with the support of Building Excellent Schools by making significant progress and demonstrating academic excellence. The School students must - and do - make significant academic growth each year, and outperform city and state averages on standardized tests.

In its first year of operation, the School *outperformed* its peers in matched schools both locally and statewide in *all* subject areas. The data overview below highlights the School results on the 2014 Tennessee Comprehensive Assessment Program (TCAP) relative to its peers.

Table 1. TCAP Performance Comparison to Matched Schools.

	Intrepid College Prep (2014)	Antioch (2014)	Apollo (2014)	JFK (2014)	Thurgood (2014)
Science	63	28	38	37	37
Math	51	34	53	43	57
Reading/ELA	63	32	35	36	33
Social Studies	86	61	76	69	79

CONTACTING THE SCHOOL’S FINANCIAL MANAGEMENT

This financial report is designed to provide transparency and accountability to all stakeholders and interested parties in the financial management and sustainability of Intrepid College Prep. For questions about this report or additional financial information, contact the School’s Founder and Executive Director, Mia Howard, by telephone at (615) 810-8443 or by email to mhoward@intrepidcollegeprep.org.

INTREPID COLLEGE PREP
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 276,324
Prepays	7,205
Capital assets, net	<u>307,272</u>
Total assets	<u>590,801</u>
LIABILITIES	
Accounts payable and accrued expenses	91,710
Long-term debt, payable within one year	<u>250,000</u>
Total liabilities	<u>341,710</u>
NET POSITION	
Net investment in capital assets	57,272
Restricted - expendable for special purposes	9,000
Unrestricted	<u>182,819</u>
Total net position	<u>\$ 249,091</u>

See accompanying notes to financial statements.

INTREPID COLLEGE PREP
STATEMENT OF ACTIVITIES
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

	Functions		
GOVERNMENTAL ACTIVITIES:	Total	Student Instruction and Services	Administration
EXPENSES			
Instructional	\$ 60,065	\$ 60,065	\$ -
Occupancy	91,839	79,563	12,276
Office	40,782	196	40,586
Other	24,800	3,227	21,573
Organizational development	116,734	104,452	12,282
Professional services and fees	216,290	-	216,290
Employee compensation	646,796	390,751	256,045
Food services	77,263	77,263	-
Insurance	21,117	-	21,117
Interest	10,913	-	10,913
Transportation	58,922	58,500	422
Depreciation	34,953	29,710	5,243
Total expenses	1,400,474	803,727	596,747
PROGRAM REVENUES			
Operating grants and contributions	407,558	407,558	-
Capital grants and contributions	15,000	15,000	-
Net program expenses	977,916	\$ 381,169	\$ 596,747
GENERAL REVENUES			
District funding	729,905		
Contributions	469,266		
Other income	27,836		
Total general revenues	1,227,007		
CHANGE IN NET POSITION	249,091		
NET POSITION, January 3, 2012 (Inception)	-		
NET POSITION, June 30, 2014	\$ 249,091		

See accompanying notes to financial statements.

INTREPID COLLEGE PREP
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Purpose School Fund	Federal and State Grants Fund	Nonmajor Governmental Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 276,324	\$ -	\$ -	\$ 276,324
Prepays	7,205	-	-	7,205
Due from other funds	-	-	9,000	9,000
Total assets	\$ 283,529	\$ -	\$ 9,000	\$ 292,529
LIABILITIES				
Accounts payable	\$ 62,085	\$ -	\$ -	\$ 62,085
Accrued expenditures	29,625	-	-	29,625
Due to other funds	9,000	-	-	9,000
Total liabilities	100,710	-	-	100,710
FUND BALANCES				
Nonspendable	7,205	-	-	7,205
Restricted	-	-	9,000	9,000
Unassigned	175,614	-	-	175,614
Total fund balances	182,819	-	9,000	191,819
Total liabilities and fund balances	\$ 283,529	\$ -	\$ 9,000	\$ 292,529

See accompanying notes to financial statements.

INTREPID COLLEGE PREP
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2014

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION:

Total governmental fund balances above	\$ 191,819
Capital assets not reported above	307,272
Some liabilities may not be due and payable in the current period, and therefore, are not reported in the funds:	
Long-term debt, payable within one year	<u>(250,000)</u>
Net position of governmental activities in the statement of net position	<u>\$ 249,091</u>

See accompanying notes to financial statements.

INTREPID COLLEGE PREP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

	General Purpose School Fund	Federal and State Grants Fund	Nonmajor Governmental Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
REVENUES				
Contributions	\$ 460,266	\$ -	\$ 9,000	\$ 469,266
District funding	729,905	-	-	729,905
Federal and state grants	-	422,558	-	422,558
Other income	27,836	-	-	27,836
Total revenues	<u>1,218,007</u>	<u>422,558</u>	<u>9,000</u>	<u>1,649,565</u>
EXPENDITURES				
Current:				
Instructional	60,065	-	-	60,065
Occupancy	91,839	-	-	91,839
Office	40,782	-	-	40,782
Other	24,800	-	-	24,800
Organizational development	71,025	45,709	-	116,734
Professional services and fees	140,381	75,909	-	216,290
Employee compensation	421,077	225,719	-	646,796
Food services	17,042	60,221	-	77,263
Insurance	21,117	-	-	21,117
Transportation	58,922	-	-	58,922
Debt service:				
Interest	10,913	-	-	10,913
Capital outlay	<u>327,225</u>	<u>15,000</u>	<u>-</u>	<u>342,225</u>
Total expenditures	<u>1,285,188</u>	<u>422,558</u>	<u>-</u>	<u>1,707,746</u>
OTHER FINANCING SOURCES				
Issuance of debt	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
NET CHANGE IN FUND BALANCES	182,819	-	9,000	191,819
FUND BALANCES, January 3, 2012 (Inception)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, June 30, 2014	<u>\$ 182,819</u>	<u>\$ -</u>	<u>\$ 9,000</u>	<u>\$ 191,819</u>

See accompanying notes to financial statements.

INTREPID COLLEGE PREP
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - CONTINUED
GOVERNMENTAL FUNDS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET POSITION
OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES:

Net change in fund balances as reported in the governmental funds statements	\$ 191,819
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	342,225
Issuance of debt recorded as revenue in the governmental funds, but reflected as long-term debt in the school-wide statements	(250,000)
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation expense	<u>(34,953)</u>
Change in net position of governmental activities	<u><u>\$ 249,091</u></u>

See accompanying notes to financial statements.

INTREPID COLLEGE PREP
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Intrepid College Prep (the “School”) is a not for profit organization organized under the laws of the State of Tennessee, with an exemption from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Pursuit to Section 6(1)(a) of the Tennessee Public Charter School Act of 2002 (the “Act”), the School has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state’s public education program offering an alternative means with the public school system for accomplishing necessary outcomes of education. The School entered into a Charter School Agreement with the Metropolitan Nashville Board of Education to operate a charter school in Nashville, Tennessee. The School began classes in August 2013 with a fifth grade class and intends to add an additional grade each year culminating with the addition of a twelfth grade in the 2020-2021 fiscal year. The mission of the School is to prepare every scholar for success in selected colleges and financial discipline in adulthood.

Basic Financial Statements

School-wide financial statements

The school-wide financial statements focus on the sustainability of the School as an entity and the change in the School’s net position resulting from the current period’s activities. In the school-wide statement of net position, amounts are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as any long-term debt and obligations. The statement of net position presents the financial condition of the School at period end.

When applicable, the School’s net position is reported in three categories - net investment in capital assets; net position - restricted; and net position - unrestricted. When both restricted and unrestricted resources are available for use, it is the School’s policy to use restricted resources first, and then unrestricted resources as they are needed.

The school-wide statement of activities reports both the gross and net cost of the School’s functions. The functions are also supported by general government revenues (general revenues are primarily made up of district Basic Education Program (“BEP”) funding and donations to the General Purpose School Fund). The statement of activities reduces gross expenses by related function revenues, including operating grants and contributions and capital grants and contributions. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue.

INTREPID COLLEGE PREP
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund financial statements

The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures.

The emphasis in fund financial statements is on the major funds. When applicable, nonmajor funds by category are summarized in a single column. Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The School reports the following major governmental funds:

The General Purpose School Fund is the School’s primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The Federal and State Grants Special Revenue Fund is used to account for the receipt and disbursement of federal and state grants where unused balances, if any, are returned to the grantor at the close of specified project periods.

The focus of the governmental funds is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The School classifies governmental fund balances as nonspendable, restricted, committed, assigned and unassigned based on the level of constraints on the fund balances. When an expenditure is incurred in which both restricted and unrestricted funds are available for use, it is the School’s policy to spend restricted funds first, then unrestricted funds. When an expenditure has been incurred for purposes in which multiple categories of unrestricted funds are available, it is the School’s policy to spend funds in the following order: committed, then assigned, and lastly unassigned funds. The classifications of fund balances are defined as follows:

Nonspendable - This classification consists of fund balances that cannot be spent because they are either not in spendable form, for example, noncash amounts that are not expected to be converted to cash, or the funds are legally or contractually required to be maintained intact.

Restricted - This classification consists of fund balances with external constraints on use imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

INTREPID COLLEGE PREP
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Committed - This classification consists of fund balances that can only be used for specific purposes established by formal action of the School's Board of Directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts.

Assigned - This classification consists of all fund balances that are not in the General Purpose School Fund or classified as nonspendable, restricted or committed. In addition, General Purpose School Fund balances that the School intends to use for specific purposes are also classified as assigned. The School gives the authority to assign amounts to specific purposes to the School's accountant and personnel under the supervision of the accountant tasked with financial recording responsibilities.

Unassigned - This classification consists of all fund balances in the General Purpose School Fund that are not reported as nonspendable, restricted, committed or assigned.

Basis of Accounting

The School's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

The School is considered a special purpose governmental entity engaged in governmental type activities and is not a component unit of another governmental entity. Therefore, the financial statements are prepared in the same manner as general purpose governments.

The School's basic financial statements include both school-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). The School's primary activities are all considered to be governmental activities and are classified as such in the school-wide and fund financial statements.

The school-wide financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

The governmental funds financial statements are presented on the modified accrual basis of accounting. Revenues under the modified accrual basis are recognized when measurable and available and expenditures are recognized when the related liability is incurred. "Available" means collectible within the current period or within 60 days after the end of the period.

Since the governmental funds financial statements are presented on a different basis than the school-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to convert the fund financial statements into the school-wide financial statements.

INTREPID COLLEGE PREP
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the useful lives of property and equipment.

Cash and Cash Equivalents

The School considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents. As of June 30, 2014, the School's cash and cash equivalents were deposited with a financial institution. The School may, from time to time, maintain deposit balances in excess of federally insured limits. See Note B.

Receivables

Receivables represent amounts due from grants or funding which have been approved but not received. All receivables are reported at estimated collectible amounts.

Capital Assets

On the school-wide financial statements, property and equipment are recorded at acquisition cost, if purchased, or the fair value on the date received, if donated. The cost of routine maintenance and repairs is expensed as incurred. Initial individual expenditures generally exceeding \$500, which materially extend the economic lives, change capacities or improve the efficiency of the related assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in the statement of activities. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 10 years.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the respective governmental fund upon acquisition.

INTREPID COLLEGE PREP
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The School is a not-for-profit school that is exempt from federal income taxes under the Internal Revenue Code, classified by the Internal Revenue Service as other than a private foundation and is similarly exempt from state income taxes. The School accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the School include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the School has determined that such tax positions do not result in an uncertainty requiring recognition.

Grants

The School receives awards and financial assistance through federal, state, local and private agencies. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Purpose School Fund or Federal and State Grants Fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School.

Fair Value of Financial Instruments

The carrying value of cash equivalents, receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The fair value of long-term debt approximates carrying value as interest approximates market rates.

Interfund Balances

Transactions which constitute reimbursement of expenditures initially made from a fund, which are properly applicable to another fund, are recorded as expenditures, as appropriate, in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Interfund balance of \$9,000 between the general purpose school fund and the restricted contributions fund represents cash held by the general purpose school fund on behalf of the restricted contributions fund.

INTREPID COLLEGE PREP
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Commitments Contingencies and Risk Management

The School is exposed to various risk of loss relating to torts, theft of, damage to, and destruction of assets; errors or commissions; illness or injuries to employees; and natural disasters. The School, carries insurance for certain risks of loss. Settled claims resulting from these risk have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School may become subject to various claims and legal actions, which arise in the ordinary course of business. In the opinion of management, in consultation with legal counsel, the ultimate resolution of such matters will not have a material adverse effect on the School's financial position or results of operations, as of the date of these financial statements.

Continuing Activities

The School is dependent on certain significant contracts and grants for its continued operations. These contracts and grants are from state, local and other sources and are subject to the School's ability to fulfill the contract and grant requirements. Additionally, the School's receipt of such contracts and grants may also be contingent upon its ability to maintain certain financial condition, cash flows, level of operations, payment of liabilities, and test scores and academic standards. If a grantor agency finds that the School is not meeting these requirements, the agency may not provide continuing funding, which would have a material adverse impact on the School's ability to continue its operations.

B. DEPOSITS WITH FINANCIAL INSTITUTIONS

As of June 30, 2014, the School had cash deposits with a financial institution that had carrying amount of \$276,324, which is collateralized by FDIC insurance. Additionally, the School's financial institution participates in the State of Tennessee's Bank Collateral Pool, which helps the School to mitigate custodial credit risk.

INTREPID COLLEGE PREP
 NOTES TO FINANCIAL STATEMENTS
 PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

C. CAPITAL ASSETS

Capital assets activity for governmental activities for the period was as follows:

	<u>Balance</u> <u>January 3, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
<i>Nondepreciable</i>				
Construction in progress	\$ -	\$ 9,651	\$ -	\$ 9,651
<i>Depreciable:</i>				
Leasehold improvements	\$ -	\$ 284,912	\$ -	\$ 284,912
Furniture and fixtures	-	47,662	-	47,662
Total depreciable capital assets	-	332,574	-	332,574
Accumulated depreciation	-	(34,953)	-	(34,953)
Capital assets, net	<u>\$ -</u>	<u>\$ 307,272</u>	<u>\$ -</u>	<u>\$ 307,272</u>

Depreciation was charged to governmental activities as follows:

Student instruction and services	\$29,710
Administration	<u>5,243</u>
	<u>\$34,953</u>

In September 2014, the School completed an expansion of the building it occupies to accommodate another grade. The total cost of the project is \$260,763, which will be included in leasehold improvements. The cost to complete the expansion is being financed by a revolving line of credit (see Note D).

D. NOTES PAYABLE

In March 2013, the School entered into a \$250,000 revolving line of credit arrangement with a bank to fund the build out of the School. The related note payable is collateralized by substantially all the assets and contributions of the School. The note accrues interest at a variable rate based on prime rate plus 0.5%, with a minimum rate of 4.25% (rate was 4.25% at June 30, 2014). Interest payments are due monthly with the remaining principal and accrued interest due in March 2015. The balance of the note payable was \$250,000 at June 30, 2014.

INTREPID COLLEGE PREP
 NOTES TO FINANCIAL STATEMENTS
 PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

D. NOTES PAYABLE - Continued

In May 2014, the School entered into a \$300,000 revolving line of credit arrangement with a bank to fund the expansion of the School. Notes payable under the line of credit are collateralized by substantially all the assets and contributions of the School. The note has also been guaranteed by a donor of the School. Any notes accrue interest at a variable rate based on the lenders prime rate with a minimum rate of 3.25% (rate was 3.25% at June 30, 2014). Interest payments on outstanding balances are due monthly with the remaining principal and accrued interest due in May 2016. There are no amounts outstanding on the line of credit at June 30, 2014.

The following is a summary of changes in the School's long-term debt for governmental activities for the period ended June 30, 2014:

	<u>Balance</u> <u>January 3, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2014</u>
Note payable - bank	\$ -	\$250,000	\$ -	\$250,000
Total	\$ -	\$250,000	\$ -	\$250,000

A summary of annual principal and interest requirements follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2015	\$7,969	\$250,000
	<u>\$7,969</u>	<u>\$250,000</u>

E. LEASE ARRANGEMENTS

The facilities used to provide educational services are provided under a lease arrangement with a local church. The lease is for a ten-year period ending on June 30, 2023, and includes an option to extend for two additional five-year periods. The lease arrangement requires the School to pay a minimum rent based on square footage, plus additional rent for operating expenses, common areas, and their portion of property taxes. The School's rent expense for the period ended 2014 totaled \$58,329.

The School is also obligated under several equipment lease arrangements with monthly payments totaling \$801 expiring in dates through November 2018. Rent expense related to the equipment leases for the period ended 2014 totaled \$5,832.

INTREPID COLLEGE PREP
 NOTES TO FINANCIAL STATEMENTS
 PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

E. LEASE ARRANGEMENTS - Continued

The leases require monthly rental payments through June 30, 2023, as follows:

<u>Year Ending June 30,</u>	
2015	\$ 162,898
2016	166,850
2017	170,506
2018	167,609
2019	168,728
2020 - 2023	<u>717,212</u>
	<u>\$1,553,803</u>

F. CONCENTRATIONS

The School received approximately 44% of its funding for operations from MNPS based on the State of Tennessee’s Basic Education Program (BEP). BEP funding is designated to schools based on student attendance. Gross BEP funding for the period ended from January 3, 2012 (inception) through June 30, 2014, was \$729,905.

Outside fundraising for capital needs is on-going to supplement funding received from State BEP capital since the charter school agreement with MNPS does not include an allocation for capital expenditures.

G. RETIREMENT PLANS

Certificated Employees Plan Description

The School contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan participants and their beneficiaries. Benefits are determined by a formula using the participant’s high five-year average salary and years of service. Participants become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested participants who are at least 55 years of age or have 25 years of service. Disability benefits are available to active participants with five years of service and who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the participant was in the performance of duty.

INTREPID COLLEGE PREP
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

G. RETIREMENT PLANS - Continued

Participants joining the plan on or after July 1, 1979, are vested after five years of service. Participants joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statutes found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if CPI increases less than one-half percent. The annual COLA is capped at three percent.

TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/schools.

Funding Policy

Participants are required to contribute 5.00% of their salary to the plan. The employer contribution rate is based on the rate for Davidson County Schools, which is established at an actuarially determined rate. The employer rate for the period ended from January 3, 2012 (inception) through June 30, 2014, was 8.88% of annual covered payroll. The employer contribution rate requirement is established by and may be amended by the TCRS Board of Trustees.

Non-Certificated Employees Plan Description

The School contributes to the Metropolitan Government of Nashville and Davidson County's Division B Pension Plan (Metro 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. Benefits are determined by a formula using the participant's highest five-year average salary and years of service.

INTREPID COLLEGE PREP
NOTES TO FINANCIAL STATEMENTS
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

G. RETIREMENT PLANS - Continued

Participants become eligible to retire at the age of 60 once their age plus the completed years of service equal 85 or at age 65 with five years of service. A reduced retirement benefit is available to vested participants prior to the age of 60 or with less than an age plus years of service sum of 85. Reduced benefits are determined by reducing full benefits by 4% per year for each of the first five years by which the retirement date precedes the normal retirement age, and by 8% for each additional year beyond the first five years with a maximum reduction of 60%. Vesting occurs after 5 years for employees employed on or between October 1, 2001 and December 31, 2012, and after 10 years for employees employed on or after January 1, 2013. The Metro Plan financial and required supplementary information is included in The Metropolitan Government of Nashville and Davidson County Comprehensive Annual Financial Report. That report may be obtained by writing to the Department of Finance, Division of Accounts, 1 Public Square, Suite 106, Nashville, TN 37201 or can be accessed at www.nashville.org/finance/financial_reports.asp.

Funding Policy

The Metro Plan requires no participant contribution. The employer contribution is established at an actuarially determined rate. The employer rate for the period ended from January 3, 2012 (inception) through June 30, 2014, was 17.117% of annual covered payroll.

The School's contributions for both teachers and non-teachers are not refundable to either the School or employee. The School's expense, related to both plans for the period ended from January 3, 2012 (inception) through June 30, 2014 totaled \$34,230.

OTHER INFORMATION

INTREPID COLLEGE PREP
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

<u>Program Name</u>	<u>CFDA Number</u>	Balance January 3, 2012 (Receivable) <u>Payable</u>
U.S. DEPARTMENT OF AGRICULTURE:		
Passed through Tennessee Department of Education		
Child Nutrition Cluster:		
National School Lunch Program	10.555	\$ -
School Breakfast Program	10.553	-
U.S. DEPARTMENT OF EDUCATION:		
Passed through Tennessee Department of Education and Metropolitan Nashville Public Schools		
Title I, Part A Cluster		
Title I Grants to Local Educational Agencies	84.010	-
Special Education Cluster (IDEA)		
Special Education - Grants to States	84.027	-
Passed through Tennessee Department of Education		
Charter School Programs (CSP) Planning and Initial Implementation Grant	84.282B	- <u> </u>
		<u>\$ -</u>

Note: The schedule of expenditures of federal awards includes the federal grant activity of the School. The information in this schedule is presented in accordance with the requirements of the State of Tennessee, Comptroller of the Treasury.

<u>Receipts</u>	<u>Expenditures</u>	Balance June 30, 2014 (Receivable) <u>Payable</u>
\$ 42,927	\$ 42,927	\$ -
17,294	17,294	-
30,761	30,761	-
16,576	16,576	-
<u>300,000</u>	<u>300,000</u>	<u>-</u>
<u>\$407,558</u>	<u>\$407,558</u>	<u>\$ -</u>

See independent auditor's report.

INTREPID COLLEGE PREP
 SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

<u>Grantor</u>	<u>State Contract Number</u>	Balance January 3, 2012 (Receivable) <u>Payable</u>	<u>Receipts</u>	<u>Expenditures</u>	Balance June 30, 2014 (Receivable) <u>Payable</u>
TENNESSEE DEPARTMENT OF EDUCATION:					
Basic Education Program	N/A	\$ -	\$ 15,000	\$ 15,000	\$ -
Passed through Metropolitan Nashville Public Schools Basic Education Program	N/A	<u>-</u>	<u>729,905</u>	<u>729,905</u>	<u>-</u>
		<u>\$ -</u>	<u>\$744,905</u>	<u>\$744,905</u>	<u>\$ -</u>

Note: The schedule of expenditures of state financial assistance includes the state grant activity of the School. The information in this schedule is presented in accordance with the requirements of the State of Tennessee, Comptroller of the Treasury.

See independent auditor's report.

INTREPID COLLEGE PREP
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
JUNE 30, 2014

	<u>Restricted Contributions Fund</u>
ASSETS	
Due from other funds	<u>9,000</u>
Total assets	<u>\$ 9,000</u>
FUND BALANCE	
Restricted	<u>9,000</u>
Total fund balance	<u>\$ 9,000</u>

See accompanying notes to financial statements.

INTREPID COLLEGE PREP
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUND
PERIOD FROM JANUARY 3, 2012 (INCEPTION) THROUGH JUNE 30, 2014

	<u>Restricted Contributions Fund</u>
REVENUES	
Contributions	\$ 9,000
Total revenues	<u>9,000</u>
 NET CHANGE IN FUND BALANCE	 9,000
FUND BALANCE, January 3, 2012 (Inception)	<u>-</u>
FUND BALANCE, June 30, 2014	<u><u>\$ 9,000</u></u>

See accompanying notes to financial statements.



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
Intrepid College Prep
Nashville, Tennessee

We have audited, in accordance with the 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 the governmental activities, each major fund and the aggregate remaining fund information of Intrepid College Prep (the "School"), as of and for the period from January 3, 2012 (inception) through June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency IC-2014-01 described in the accompanying schedule of findings and responses to be a material weakness.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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*.

Intrepid College Prep's Response to Findings

Intrepid College Prep's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The School'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.

Crosslin + Associates, P.C.

Nashville, Tennessee
December 31, 2014

INTREPID COLLEGE PREP
SCHEDULE OF FINDINGS AND RESPONSES
PERIOD FROM JANUARY 3, 2012 (INCEPTION) TO JUNE 30, 2014

FINANCIAL STATEMENT FINDING

IC-2014-01— Capital Assets

Condition, Criteria, Cause and Effect

While the School has implemented certain policies and procedures over capital assets, we found that these policies are not being followed and certain errors in capitalization and depreciating of capital assets were found during the audit process. Errors included expensing certain computer equipment and building improvements that met both the criteria for capitalization and the School's capitalization policy. We also noted certain capital assets were recorded to prepaid expenses that were both paid for and received by the end of the audit period. We also noted building improvements were not being depreciated over the expected lease term.

Recommendation and Benefit

We recommend that the School implement a process to ensure capital assets are properly reviewed and recorded in appropriate asset or expense accounts based on the School's capitalization policy. Also we recommend the School implement a policy that more clearly defines asset lives and review an asset's useful life when it capitalized to ensure the asset is depreciated appropriately.

Management's Response

Management agrees with all the recommendations made in this audit. Management will present a revised Capitalization Policy to the Board of Directors at the January 2015 board meeting. We are in the process of exploring the most efficient and effective way to monitor the review and recording of capital assets in appropriate asset or expense accounts.