LEAD ACADEMY

FINANCIAL STATEMENTS

June 30, 2009

LEAD ACADEMY

CONTENTS

DECOSIMO
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
LEAD Academy
Nashville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of LEAD Academy (the School) as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 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 the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of LEAD Academy as of June 30, 2009, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2010, on our consideration of the School's internal control over financial reporting and on our test 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages three through eight is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise LEAD Academy 's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Financial Assistance is presented for the purpose of additional analysis as required by the State of Tennessee Comptroller of the Treasury, *Audit Manual for Local Governmental Units and Recipients of Grant Funds* and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal and State Financial Assistance has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Joseph Decosimo and Company, PLLC

Nashville, Tennessee
March 31, 2010

LEAD ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Our discussion and analysis of LEAD Academy annual financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2009. 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 $381,611
- Net assets increase $30,883 during the year
- Outlays for new capital assets totaled $125,758
- Total revenues of $1,540,240 were comprised of Federal Passthrough Funds - 20%, District Funds - 74% and Charitable Giving/Other - 6%

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 Assets 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 year's activities. The Statement of Net Assets 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 year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page nine.

The Statement of Net Assets reports the School's net assets (total assets less total liabilities). Private sector entities would report retained earnings. The School's net asset balance at year end represents available resources for future growth. The Statement of Activities reports the change in net assets as a result of activity during the year. Private sector entities have a similar report titled statement of operations, which reports net income. The Statement of Activities provides the user a tool to assist in determining the direction of the School's financial health during the year. 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.

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 eleven. 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 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 year-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 government-wide financial statements to report on the School as a whole. The relationship between governmental activities, as reported in the Statement of Net Assets 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 twelve and fourteen.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
The School's assets exceeded the School's liabilities at the close of the fiscal year, resulting in net assets of $381,611. The School's net assets include $289,940 of cash, all of which is available to meet the School's ongoing activities.

As of June 30, 2009, the School had invested $316,255 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, maintenance equipment and books for instructional purposes. The School expects additional capital asset investments in the 2009-2010 school year as student enrollment maximizes at each grade level. With the additional students there will be continued requirements for furniture, computers and equipment. The School facility is currently large enough to accommodate increased student enrollment for all grades, fifth through eighth. Additional information on capital assets is located in the notes to the financial statements.

The School is currently renting educational space from St. Vincent De Paul Catholic Church. The building was originally built in the 1920's with a major addition in the 1960's. The current lease term ends July 31, 2014, but management intends to seek lease renewal at the end of the current lease.

The School has no debt as of the end of the fiscal year except for two capital lease obligations for copy machines.

A summary of the School's net assets as of June 30, 2009, is as follows:

Current assets	$ 335,520
Capital assets	140,511
Total assets	476,031
Total liabilities	94,420
Net assets	
Invested in capital assets, net of capital lease obligations	127,578
Restricted	40,905
Unrestricted	213,128
Total net assets	$ 381,611

Changes in Net Assets

The School's total net assets increased $30,833 during the 2009 fiscal year. The increase in the School's net assets indicates that the School had more incoming revenues than outgoing expenses during the year. The School had budgeted an increase of $35,658. Total revenues generated from government grants, governmental funds, foundation grants and donations were $1,540,240 during the 2009 fiscal year.

Contributions from individuals and organizations of $75,913 were higher than expected due primarily to foundation grants. These contributions are crucial to the School's ability to provide end of school experiences for 100% of our students and more than 120 service learning projects for all students.

LEAD ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

A schedule of the School's revenue and expenses for the year ended June 30, 2009, is as follows. The schedule is for the School as a whole not for the governmental funds.

Revenues		
Contributions	$	75,913
District funding		1,147,307
Federal subrecipient grants		301,287
Other income		12,109
State and local funding		3,624
		1,540,240
Expenses		
Depreciation		137,990
Instructional		61,678
Occupancy cost		215,524
Office expense		16,740
Organizational development		8,315
Other expenses		19,309
Service fees		56,913
Salaries, wages and benefits		928,306
Staff development		33,204
Transportation		23,860
Other student services		7,518
		1,509,357
Change in net assets	$	30,883

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the Balance Sheet on page eleven reported a combined fund balance of $241,100. 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 no other major funds. Nonmajor funds comprise less than 10% of the School's total funds.

Due to the 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, 2009 year end, the differences consist of capital assets which are not reported in the School's funds.

SCHOOL ACTIVITIES

The School gives hope to families who see education as the passport to a better tomorrow. Our program has been designed to instill democratic habits at an early age, develop them through the middle school years, and refine them at the high school level. At the same time, we partner with community organizations to engage positive programs needed to address our community's challenges. Ultimately, by combining rigorous academics with a spirit of civic duty and responsibility, LEAD Academy students will return to the community as civic-minded intellectuals armed with a college degree and a desire to impact positive social change.

At LEAD Academy we firmly believe that every student has the potential to graduate from high school, attend a 4-year college, and commit to adopting a "Whatever it Takes" attitude toward life to make this a reality. Therefore, it is our vision that 100% of LEAD Academy students will graduate from high school and be accepted to a 4-year college/university.

LEAD Academy exists to educate, train, and support the next generation of leaders. Our doors are open to all eligible students who desire a rigorous academic and personal development program that will prepare them to graduate from college and, more importantly, to positively affect our community as productive, responsible citizens.

Our students attend a longer school day than their peers in regular public schools. LEAD Academy offers before and after-school activities, extra-curricular activities, clubs, and sports, with our schedule running from 7:45 a.m. - 4:15 p.m. and two Saturdays per month. Students also participate in regular service-learning projects and trips geared toward improving neighborhoods across the greater Nashville area. The LEAD Academy school year runs longer than other public schools and begins with a two week Summer School Session where students take classes modeled after the collegiate environment and ends with students exploring college campuses across the country during the Spring College Research Trips.

LEAD Academy far exceeded expectations on state tests in math and reading/language arts. As measured by the Tennessee Comprehensive Assessment Program (TCAP) at the end of the 2009 school year, LEAD Academy students in the fifth grade jumped from 72% proficient and advanced to 84.8% on reading/language arts and from 74% to 95.7% on math, sixth graders jumped from 70% to 78% in reading/language arts and 71% to 82% in math, and seventh graders jumped from 76% to 87% in reading/language arts and 82% to 90% in math. Attendance for the 2008-09 school year was 97% as compared to MNPS' 95% attendance rate. These results exceeded expectations and are on track with projections for every student to graduate from high school and be accepted to a 4-year college/university.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Enrollment: FY 2010 enrollment is projected to be 390. Revenues: We anticipate an increase in total Basic Education Program (BEP) funding as a result of an additional grade and increased enrollment across all grades. The Metropolitan Nashville Administrative Services processing fee has been discontinued which will also increase useable BEP funds. For FY 2010, the School expects to raise approximately \$75,000 in non-government funds. Expenses: Student expenses should increase with the additional enrollment. We expect general and administrative expenses, however, to decline as a percentage of total expenses given the reduction of start-up expenses and increased operating leverage of the administrative staff and facility.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students' parents, Davidson County taxpayers, donors, creditors, authorities over grant funding and agencies tasked with oversight of Nashville and Davidson County public schools with a general overview of the School's finances and to demonstrate the School's accountability of the money it receives. If you have questions about this report or need additional financial information, contact the School's Director of Operations, Gary Satyshur, at 1704 Heiman Street, Nashville, TN 37208, by telephone at (615) 327-5424 or by email: gsatyshur@leadacademy.org.

LEAD ACADEMY

STATEMENT OF NET ASSETS

June 30, 2009

		Governmental Activities
ASSETS		
Cash and cash equivalents	$	289,940
Prepaid items		4,675
Receivables		40,905
Capital assets, net		140,511
Total assets		476,031
LIABILITIES		
Accounts payable		43,894
Accrued expenses		37,593
Capital lease obligations		12,933
Total liabilities		94,420
NET ASSETS		
Invested in capital assets, net of related debt		127,578
Restricted		40,905
Unrestricted		213,128
Total net assets	$	381,611

The accompanying notes are an integral part of the financial statements.

LEAD ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

		Functions		
	Total	Student Instruction and Services	Administration	Fundraising
EXPENSES				
Depreciation	$ 137,990	$ 137,990	$ -	$ -
Instructional	61,678	59,936	1,742	-
Occupancy cost	215,524	183,195	32,329	-
Office expense	16,740	1,677	12,510	2,553
Organizational development	8,315	-	653	7,662
Other expenses	19,309	12,974	6,335	-
Service fees	56,913	-	56,913	-
Salaries, wages and benefits	928,306	729,028	199,278	-
Staff development	33,204	25,610	7,594	-
Transportation	23,860	23,860	-	-
Other student services	7,518	7,518	-	-
Total expenses	1,509,357	1,181,788	317,354	10,215
PROGRAM REVENUES				
Contributions	15,000	15,000	-	-
District funding	31,331	31,331	-	-
Federal subrecipient grants	301,287	301,287	-	-
State/local funding	3,624	3,624	-	-
Net program expenses	1,158,115	$ 830,546	$ 317,354	$ 10,215
GENERAL REVENUES				
Contributions	60,913			
District funding	1,115,976			
Other income	12,109			
Total general revenues	1,188,998			
CHANGE IN NET ASSETS	30,883			
NET ASSETS - beginning of year	350,728			
NET ASSETS - end of year	$ 381,611			

The accompanying notes are an integral part of the financial statements.

LEAD ACADEMY

BALANCE SHEET

June 30, 2009

		General Fund
ASSETS		
Cash and cash equivalents	$	289,940
Prepaid items		4,675
Receivables		40,905
TOTAL ASSETS	$	335,520
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$	43,894
Accrued expenses		37,593
Capital lease obligations		12,933
Total liabilities		94,420
FUND BALANCES		
Restricted		40,905
Unassigned		200,195
Total fund balances		241,100
TOTAL LIABILITIES AND FUND BALANCES	$	335,520

The accompanying notes are an integral part of the financial statements.

LEAD ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2009

Total Governmental Fund Balances	$	241,100
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund balance sheet.		140,511
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$	381,611

The accompanying notes are an integral part of the financial statements.

LEAD ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Year Ended June 30, 2009

	General Fund
REVENUES	
Contributions	$ 75,913
District funding	1,147,307
Federal subrecipient grant	301,287
Other income	12,109
State and local funding	3,624
Total revenues	1,540,240
EXPENDITURES	
Instructional	61,678
Occupancy cost	215,524
Office expense	16,740
Organizational development	8,315
Other expenses	19,309
Professional and service fees	56,913
Salaries, wages and benefits	928,306
Staff development	33,204
Transportation	23,860
Other student services	7,518
Capital outlays	125,758
Total expenditures	1,497,125
NET CHANGE IN FUND BALANCES	43,115
FUND BALANCES - beginning of year	197,985
FUND BALANCES - end of year	$ 241,100

The accompanying notes are an integral part of the financial statements.

LEAD ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	$ 43,115
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays, reported as expenditures in governmental funds are shown as capital assets in the statement of net assets.	125,758
Depreciation expense on governmental capital assets is included only in the governmental activities in the statement of activities.	(137,990)
Total	(12,232)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 30,883

The accompanying notes are an integral part of the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and procedures followed by the School are as follows:

ORGANIZATION - LEAD Academy was incorporated during 2006, as a Tennessee nonprofit corporation. Pursuant 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 within 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 on July 23, 2006, to operate a charter school in Nashville, Tennessee. The School began classes in July 2007 with fifth and sixth grade classes, added a seventh grade this year and plans to add an eighth grade in the 2009-2010 fiscal year.

BASIS OF ACCOUNTING - The School's financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict the guidance of the GASB pronouncements. Although the School has an option to apply FASB pronouncements issued after that date to it's business type activities and enterprise funds, the School has chosen not to do so.

The School, in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments* (Statement 34), is considered a special purpose governmental entity that is engaged in both governmental and business 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.

BASIC FINANCIAL STATEMENTS - The School's basic financial statements include both government-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 government-wide and fund financial statements.

The government-wide financial statements of the School 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 expenses are recognized when the related liability is incurred.

GOVERNMENT-WIDE FINANCIAL STATEMENTS - The government-wide financial statements focus on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The statement of net assets presents the financial condition of the School at year-end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Statement 34 requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances (if any) of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints 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.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt. When both restricted and unrestricted assets are available for use, it is the School's policy to utilize restricted assets first, then unrestricted assets as needed.

The government-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 BEP funding and donations to the general fund). The Statement of Activities reduces gross expenses by related function revenues, operating and capital grants. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue. The School allocates indirect cost between functions.

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 equity, revenues and expenses.

The emphasis on fund financial statements is on the major funds. Nonmajor funds by category are summarized in a single column. Statement 34 sets forth minimum criteria for the determination of major funds. The School's only major fund is the General Fund. The General 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. All of the School's financial resources were accounted for in the general fund as of June 30, 2009.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The School has elected early implementation of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (Statement 54). Statement 54 classifies governmental fund balances as: nonspendable, restricted, committed, assigned or 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 can not 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.

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 fund or classified as nonspendable, restricted or committed. In addition, general 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 controller and personnel under the supervision of the controller tasked with financial recording responsibilities.

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

FUNCTIONAL ALLOCATION OF EXPENSES - The costs of providing various programs and other services have been reported on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs, general and administrative and fundraising, based on estimates made by management.

CASH - 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, 2009, the School's cash and cash equivalents were deposited in one financial institution. The School routinely maintains deposit balances in excess of federally insured limits with certain financial institutions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 - Property and equipment are recorded at acquisition cost less accumulated depreciation, if purchased, or the fair value on the date received, if donated. The cost of routine maintenance and repairs is expensed as incurred. Expenditures 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 three to seven years, or over the term of the lease for leasehold improvements, if less. The School follows the practice of capitalizing all expenditures for property and equipment items over $250.

IN-KIND CONTRIBUTIONS - The School recognizes various types of in-kind contributions received in the course of daily operations, including professional services, supplies and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible assets are capitalized at fair value when received.

GRANTS - The School received Federal financial assistance through state 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 Fund or other applicable funds. 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 as of June 30, 2009.

INCOME TAXES - The School is a not-for-profit school that is exempt from federal income taxes under the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and is similarly exempt from state income taxes.

ESTIMATES AND UNCERTAINTIES - 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.

SUBSEQUENT EVENTS - The School has evaluated subsequent events for potential recognition and disclosure through March 31, 2010, the date the financial statements were available to be issued, as disclosed in Note 4.

NOTE 2 - CAPITAL ASSETS

Capital assets consist of the following:

		Government-Wide		
	June 30, 2008	Additions	Deletions	June 30, 2009
Computer equipment	$ 9,066	$ 77,799	$ -	$ 86,865
Furniture and fixtures	4,880	7,630	-	12,510
Machinery and equipment	20,540	11,096	-	31,636
Text books	23,261	10,433	-	33,694
School buses	132,750	18,800	-	151,550
	190,497	125,758	-	316,255
Accumulated depreciation	(37,754)	(137,990)	-	(175,744)
	$ 152,743	$ (12,232)	$ -	$ 140,511

Depreciation expense was charged to functions as follows:

Governmental activities:	
Student instruction and services	$ 137,990
Administration	-
Fundraising	-
Total governmental activities depreciation expense	$ 137,990

NOTE 3 - FEDERAL FUNDS

The School has no direct Federal awards. All Federal monies were received as subrecipient funds through a Planning and Implementation Grant by the Tennessee Department of Education. The School receives the passthrough funding from Title V Part B, through Metropolitan Nashville Public Schools (MNPS). Title V receipts totaled $301,287 for the year ended June 30, 2009.

NOTE 4 - OPERATING LEASE

The facilities used to provide educational services are provided under a lease arrangement renewed annually from St. Vincent De Paul Catholic Church. The arrangement requires the School to pay rent in equal monthly installments. Under the terms of the lease, the School paid rent expenses of $90,000 for the year ended June 30, 2009. Also included in the arrangement, the School is required to pay additional rent for items including but not limited to, insurance, taxes, grounds maintenance, water, gas, electricity and internet service. The School paid additional rent costs of $78,000 for the year ended June 30, 2009. The School signed a new lease agreement in August 2009. The new agreement requires an annual use fee of $170,000 per year and terminates July 31, 2014.

NOTE 4 - OPERATING LEASE - continued

Per the terms of the subsequently signed lease, future minimum lease payments required under the operating lease agreement are as follows:

Year ending	
June 30, 2010	$ 170,000
June 30, 2011	170,000
June 30, 2012	170,000
June 30, 2013	170,000
June 30, 2014	170,000
	$ 850,000

NOTE 5 - CAPITAL LEASE OBLIGATIONS

The School has entered into capital lease agreements for two copiers. Lease payments due on the 15th and 25th of each month under the agreements are $452 and $335, respectively. The amount of the leases capitalized on the School's books as of June 30, 2009, is $12,200 and $8,999, respectively, with accumulated depreciation of $6,344 and 5,399, respectively. The leases expire on September 15, 2010 and October 25, 2011.

As of June 30, 2009, future minimum lease payments required are as follows:

Year ending	
June 30, 2010	$ 9,435
June 30, 2011	5,369
June 30, 2012	1,338
Total minimum future payments	16,142
Less amount representing interest	3,209
	$ 12,933

NOTE 6 - CONCENTRATIONS

The School received 73% of its funding for operations from MNPS based on the State of Tennessee's BEP. BEP funding is designated to schools based on student attendance. Gross BEP funding for the year ended June 30, 2009, was $1,115,976. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

Per the School's charter agreement, enrollment in the School is open to any student within the Metropolitan Nashville Public School System who would otherwise attend a school failing to make adequate yearly progress, as defined by the State Department of Education in compliance with the U.S. Department of Education guidelines. The School may only enroll students in grades five through eight. Student enrollment may not exceed two hundred and fifty students.

NOTE 7 - RETIREMENT PLAN

TEACHER 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. 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.

The 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.treasury.state.tn.us.

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 year ending June 30, 2009, was 6.42% of annual covered payroll.

NON-TEACHER 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 high five-year average salary and years of service. 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%. Participants are vested after five years of service.

No separate financial reports are issued for the Metro Plan. The Metro Plan financial and required supplemental information is included in The Metropolitan Government of Nashville and Davidson County financial report. That report may be obtained by writing to the Tennessee 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.

NOTE 7 - RETIREMENT PLAN - continued

FUNDING POLICY - The Metro Plan requires no participant contribution. The employer contribution is established at an actuarially determined rate. The employer rate for the year ending June 30, 2009, was 16.66% of annual covered payroll.

The School's contributions for both teachers and non-teachers are not refundable to either the School or employees. The School's expense, related to both plans for the year ending June 30, 2009, totaled $52,241.

SUPPLEMENTARY INFORMATION

LEAD ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE FINANCIAL ASSISTANCE

Year Ended June 30, 2009

Federal Grantor/ State Grantor/ Program Title/ Pass-through Grantor	CFDA #	Contract Number	Balance June 30, 2008	Receipts	Expenditures	Balance June 30, 2009
STATE FINANCIAL ASSISTANCE						
Federal - Department of Education - Office of Elementary and Secondary Education						
State of Tennessee Department of Education Charter School Grant	84.282A	GR-07-20963-00	$ 6,335	$ 266,717	$ 301,287	$ 40,905
TOTAL STATE FINANCIAL ASSISTANCE			$ 6,335	$ 266,717	$ 301,287	$ 40,905

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal and State Financial Assistance includes the federal and state grant activity of Lead Academy and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State of Tennessee Department of Audit, *Audit Manual*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

DECOSIMO
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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
LEAD Academy
Nashville, Tennessee

We have audited the financial statements of LEAD Academy as of and for the year ended June 30, 2009, and have issued our report thereon dated March 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential, will not be prevented or detected by the School's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses identified as items 2009-01 and 2009-02 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School in a separate letter dated March 31, 2010.

The School's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the School's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Board of Directors, management, the Metropolitan Nashville Public School Board, the Commissioner of Education and the State of Tennessee and is not intended to be, and should not be, used by anyone other than these specified parties.

Joseph Decosimo and Company, PLLC

Nashville, Tennessee
March 31, 2010

LEAD ACADEMY

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2009

2009-01 - Segregation of Duties

Condition and Criteria: The School does not have segregation of duties over multiple areas of the financial process. Segregation of duties reduces risk by involving multiple parties in the transactions cycle reducing the ability of one person to control the complete cycle with out any outside controls.

Effect: Lack of segregation of duties results in a risk of misappropriation of assets and errors. The School has taken steps to lessen the risk, but has not eliminated the lack of segregation of duties.

Cause: The size of the School limits its ability to have complete segregation of duties.

Auditor's Recommendations: We recommend that the School continue to review current procedures and when able, establish proper segregation of duties.

School's Response: Segregation of duties is difficult for an organization our size with a limited number of support personnel. Having complete segregation of duties would not be a practical or efficient use of the School's limited resources. The School has implemented policies and procedures that help to minimize the risk associated with a lack of segregation of duties. The School also uses a third-party accounting services firm to assist in the accounting function. The use of the firm allows some tasks to be segregated, further minimizing the risk. The School realizes that there is a lack of segregation of duties and will continue to enforce current policies and procedures in place and look for additional areas to minimize the risks associated with a lack of segregation of duties.

2009-02 - Accounting for Restricted Funds

Condition and Criteria: The School did not match expenditures for restricted funds against the revenue for the funds. Restricted fund expenditures should be tracked against the revenue to ensure proper expenditure, avoid application of an expenditure to multiple funds and comply with grantor and donor guidelines. The School received restricted funds through contributions and passthrough grants. Revenue and expenditures were recorded on the School's books, but there was no accounting of which expenditures should be applied to restricted revenue.

Effect: Detailed restricted fund reporting was not possible with out first identifying the restricted expenditures that took place. Remaining restricted assets on hand could not be easily identified.

Cause: The School knew that restricted expenditures were taking place but was unaware that they needed to match the expenditures with the funding in order to track the balance of the restricted funding.

Auditor's Recommendations: We recommend that the School use tools within their primary accounting system or a secondary system to track restricted funds and expenditures. The School should reconcile restricted funds throughout the year.

School's Response: The School will inform its third-party accounting provider of the need to track restricted funds and put a policy in place.

LEAD ACADEMY

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2009

2008-01 - Accounting Policies and Procedures Manual

Condition and Criteria: The School has not established a well-defined accounting policies and procedures manual.

Auditor's Recommendations: We recommended that the School evaluate their current accounting policies and procedures and complete a written comprehensive accounting and financial policies and procedures manual to clearly and effectively establish and communicate to others the accounting policies and procedures.

Current Status: Partially corrected, not a current year issue

2008-02 - Maintaining Fixed Asset Detail

Condition and Criteria: The School does not maintain a fixed asset detail listing. Fixed assets are recorded on the School's books, but there is not a separate detailed listing of the fixed assets that contains the life and depreciation of the asset.

Auditor's Recommendations: We recommended that the School use a projected depreciation schedule as the basis of actual depreciation entries and that the School update projected depreciation as needed for new asset additions.

Current Status: Corrected

2008-03 - Segregation of Duties

Condition and Criteria: The School did not have proper segregation of duties in the area of cash. The School's operations director has both approval authority and custody of cash. The School's third party book keeper has custody and ability to record transactions. Complete segregation of duties in the cash disbursement process would not allow any one individual to have two or more of the following: approval, custody or ability to record.

Auditor's Recommendations: We recommended that the School continue to review current procedures and when able, establish proper segregation of duties. We also recommended that the Principal or a Board member occasionally obtain the bank statements unopened and review the statements to ensure the propriety of the transactions.

Current Status: Partially corrected and repeated

LEAD ACADEMY

SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2009

2008-04 - Depth of Accounting Knowledge

Condition and Criteria: The School's personnel has limited experience in the area of accounting. A third party service provider has been contracted by the School to provide general ledger recording and maintenance, report processing and other accounting services. The service provider serves an important role in the School's accounting cycle and benefits the School in various aspects. The School has the overall responsibility of the accounting process and may want to consider future training or employment decisions based on the need to have personnel employed by the School who have a broader knowledge in the area of accounting.

Auditor's Recommendations: We recommended that the School consider further training for current personnel or adding additional personnel who have a broad knowledge of accounting.

Current Status: Corrected