

NASHVILLE PREPARATORY CHARTER SCHOOL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2012

NASHVILLE PREPARATORY CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nashville Preparatory Charter School
Nashville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of Nashville Preparatory Charter School (the School) as of and for the period from August 9, 2010 (Date of Inception) to June 30, 2012, 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 Nashville Preparatory Charter School as of June 30, 2012, and the respective changes in financial position for the period 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 December 28, 2012 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nashville Preparatory Charter School's financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the State of Tennessee Comptroller of the Treasury's, *Audit Manual for Local Governmental Units and Other Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Car. Riggs & Ingram

Nashville, Tennessee
December 28, 2012

NASHVILLE PREPARATORY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Our discussion and analysis of Nashville Preparatory Charter School dba Nashville Prep's annual financial performance provides an overview of the School's financial activities for the period ended June 30, 2012. Since the period ended June 30, 2012 is the School's first period of operations, comparisons to prior years is not possible. However, in next year's discussion the following sections will show a condensed financial comparison of the School's assets, liabilities, net assets, revenues and expenses and provide explanations for significant differences. 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 \$327,690. Net assets increased by \$327,690 during the period. Outlays for new capital assets totaled \$80,620. Total revenues of \$1,747,710 were comprised of Federal pass-through funds (37%), district funds (45%), and charitable contributions (18%) for the period ended June 30, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of a series of financial statements, notes to those statements, required supplementary information, 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

In general, users of these financial statements want to know if the School is in a better or worse financial position as a result of the period'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 information regarding 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 8.

The Statement of Net Assets reports the School's net assets (total assets less total liabilities). The School's net asset balance at period-end represents available resources for future growth. The Statement of Activities reports the change in net assets as a result of activity during the period and also assists in determining the School's financial health during the period. Users of these statements will want to consider non-financial factors and financial data before arriving at a conclusion regarding the overall health of the School.

FUND FINANCIAL STATEMENTS

The School's fund financial statements, which are comprised of the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 10. These statements provide detailed information about the School's most significant funds, not the School as a whole. Funds are

established by the School as required 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 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 11 and 13.

SCHOOL-WIDE FINANCIAL ANALYSIS

The School's assets exceeded the School's liabilities at the close of the fiscal year, resulting in net assets of \$327,690. The School's net assets include \$251,454 of cash, all of which is available to meet the School's ongoing activities.

As of June 30, 2012, the School had invested a total of \$70,760 in capital assets. This investment includes instructional and support furniture, instructional computers for instructors, and mobile student computer labs, maintenance equipment and books for instructional purposes. The School expects additional property and equipment investments in the 2012-2013 school year, as student enrollment is expected to double, due to the addition of another grade level. Additional information on property and equipment is located in the notes to the financial statements.

The School currently leases space from Tennessee State University. This lease agreement was renewed for the 2012-13 school year, with the lease term ending on July 31, 2013. For subsequent school years, the School plans to secure a long-term facility.

The School secured a \$100,000 line of credit with Pinnacle Financial Partners during the period. Although no debt has been incurred to date, the School has since increased their credit limit to \$150,000 for the fiscal year ending in 2013. Additional information on capital assets is located in the notes to the financial statements.

A schedule of the School's net assets as of June 30, 2012, is as follows:

Current assets	\$ 292,217
Capital assets, net	70,760
Total assets	<u>362,977</u>
Current liabilities	<u>35,287</u>
Total liabilities	<u>35,287</u>
Net assets:	
Invested in capital assets	70,760
Unrestricted	256,930
Total net assets	<u>\$ 327,690</u>

CHANGES IN NET ASSETS

The School's total net assets increased \$327,690 during the period ended June 30, 2012. The increase in the School's net assets indicates that the School had more incoming revenues than outgoing expenses during the period.

Total revenues generated from government grants, governmental funds, and contributions were \$1,747,710 during the period ended June 30, 2012. Contributions from individuals and organizations were \$311,605 due primarily to support from individual and corporate donors and the identification of new individual donors. In particular, the school held its first annual fundraising breakfast. The event was well attended and provided the school with the opportunity to update existing donors on Nashville Prep's progress and introduce Nashville Prep to prospective new donors. These contributions proved to be crucial to the School's academic success. Finally, District funding began during 2012. Nashville Prep focused on building enrollment through concerted recruiting and marketing efforts in the community and was able to generate an initial enrollment of 95 students in the school year ended June 30, 2012.

Total expenses were \$1,420,020 during the period August 9, 2010 (Date of Inception) to June 30, 2012. The majority of these expenses are related to Nashville Prep's start up and implementation of the charter school, employee compensation, instruction, and occupancy. Nashville Prep began its operations during the period ended June 30, 2012, which included hiring an Executive Director, Director of Operations, and various instructors and support staff.

The change in net assets was \$327,690. Operating expenses during the period August 9, 2010 (Date of Inception) to June 30, 2012 were primarily for startup, implementation, and education-related expenses. The increases in revenue from contributions and Federal grants more than offset the School's expenses.

A schedule of the School's revenue and expenses for the period August 9, 2010 (Date of Inception) to June 30, 2012, is as follows.

Contributions	\$ 311,605
District funding	786,640
Federal grants	644,249
Food and student fees	3,946
Other	1,270
Total revenues	<u>1,747,710</u>
Employee compensation and benefits	703,160
Food service	63,407
Instructional	144,636
Occupancy	130,255
Office	66,865
Organizational development	56,072
Other	43,519
Professional services and fees	45,906
Staff development	54,996
Transportation	101,344
Capital outlays	9,860
Total expenses	<u>1,420,020</u>
Change in net assets	<u>\$ 327,690</u>

The schedule is for the School as a whole, not for the governmental funds.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the Balance Sheet on page 10, report a combined fund balance of \$256,930. All of the School's funds are in the General Fund, which is the chief operating fund of the School.

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 period ended June 30, 2012, the differences are minor and consist of capital assets, which are not reported in the School's funds, and depreciation.

SCHOOL ACTIVITIES

Nashville Preparatory Charter School (the School) opened in July 2011 as a middle school with the 5th grade. The School recruits students from Davidson County, primarily North Nashville, Bordeaux, Antioch, and East Nashville. The school is an open enrollment public school and accepts students from a wide range of academic and socioeconomic backgrounds. The School firmly believes that every student, regardless of background, can and will graduate from a four year college. Everything the School does is

in service to our mission: college graduation. The rigorous academic program and strict discipline system prepare the students to be successful in college. The School has a longer school day and a longer school year allowing the students to receive substantially more instruction than their counterparts in traditional public schools. The students attend school from 7:30AM to 5:00PM and every other Saturday. The School offers two hours of math instruction and three hours of literacy instruction each day. The students also receive an hour of small group tutoring each day, allowing the staff to target academic deficiencies. Over the summer, the School offers math instruction to incoming 5th graders, as well as summer school for the current students. The school year begins with a week-long orientation emphasizing culture and character.

The School recruits champion teachers from all over the country so that it can train the next generation of leaders. In the 2011-2012 school year, every teacher received the highest possible rating on the TVAAS, meaning that their students achieved substantial academic growth on state assessments.

The School far exceeded the performance of Metropolitan Nashville Public Schools (MNPS) and other Nashville area charter in the 2011-2012 school year, as measured by the Tennessee Comprehensive Assessment Program (TCAP). 79% of the School's students scored proficient or advanced on the Math TCAP compared to 46% of students in MNPS. 64% of Nashville Prep students scored proficient or advanced on the ELA TCAP, compared to 47% of students in MNPS. The School's growth measure on all four TCAP assessments (math, social studies, ELA, and science) far exceeded that of MNPS.

Remarkably, the School's Math TCAP scores exceeded those of Williamson County Public Schools – the highest performing county in the state. Additionally, Stanford's CREDO study ranked the School as the top performing charter school in Tennessee.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Enrollment: Fiscal year 2013 enrollment is projected to be 190 students, an increase of 100 students to account for the addition of an incoming 5th grade class. Revenues: state and federal revenues are budgeted at approximately \$2.100 million. Total revenue is budgeted at \$2.273 million. Expenses: Student and staff related expense are expected to increase with the additional student enrollment. Overall expenses will increase as a percentage of total revenues. Total expenses are budgeted to be \$2.128 million, producing a budgeted operating surplus of \$145,000. An annual operating deficit is not expected for fiscal year 2013.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students' families, Davidson County taxpayers, local and national donors, creditors, authorities over grant funding and agencies tasked with oversight of Metropolitan Nashville Public Schools with a general overview of the School's finances and to demonstrate the School's accountability of the school's fiscal activities. For questions about this report or additional financial information, contact the School's Director of Operations, Nida Rab, at 330 10th Avenue North, Nashville, TN 37203, by telephone at (615) 921-8440 or email nrab@nashvilleprep.org.

NASHVILLE PREPARATORY CHARTER SCHOOL

STATEMENT OF NET ASSETS

June 30, 2012

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash	\$ 251,454
Receivables	18,146
Other current assets	22,617
Capital assets, net	70,760
TOTAL ASSETS	<u>\$ 362,977</u>
LIABILITIES	
Accounts payable	\$ 8,100
Accrued expenses	27,187
TOTAL LIABILITIES	35,287
NET ASSETS	
Invested in capital assets	70,760
Unrestricted	256,930
TOTAL NET ASSETS	<u>327,690</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 362,977</u>

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Period from August 9, 2010 (Date of Inception) to June 30, 2012

GOVERNMENTAL ACTIVITIES	TOTAL	STUDENT INSTRUCTION AND SERVICES			ADMINISTRATION	FUNDRAISING
EXPENSES						
Employee compensation and benefits	\$ 703,160	\$ 425,837	\$ 277,323	\$ -		
Food service	63,407	63,407	-	-		
Instructional	144,636	144,636	-	-		
Occupancy	130,255	111,684	18,571	-		
Office	66,865	-	66,865	-		
Organizational development	56,072	-	45,493	10,579		
Other	43,519	-	43,519	-		
Professional services and fees	45,906	-	45,906	-		
Staff development	54,996	54,988	8	-		
Transportation	101,344	101,344	-	-		
Depreciation	9,860	6,487	3,373	-		
	<u>1,420,020</u>	<u>908,383</u>	<u>501,058</u>	<u>10,579</u>		
PROGRAM REVENUES						
Federal grants	<u>644,249</u>	<u>644,249</u>	<u>-</u>	<u>-</u>		
Net program expenses	<u>775,771</u>	<u>\$ 264,134</u>	<u>\$ 501,058</u>	<u>\$ 10,579</u>		
GENERAL REVENUES						
Contributions	311,605					
District funding	786,640					
Food and student fees	3,946					
Other	<u>1,270</u>					
Total general revenues	<u>1,103,461</u>					
CHANGE IN NET ASSETS	327,690					
NET ASSETS, BEGINNING OF PERIOD	<u>-</u>					
NET ASSETS, END OF PERIOD	<u>\$ 327,690</u>					

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2012

	<u>GENERAL FUND</u>
ASSETS	
Cash	\$ 251,454
Receivables	18,146
Other current assets	<u>22,617</u>
TOTAL ASSETS	<u><u>\$ 292,217</u></u>
LIABILITIES	
Accounts payable	\$ 8,100
Accrued expenses	<u>27,187</u>
TOTAL LIABILITIES	35,287
FUND BALANCES	
Unassigned	<u>256,930</u>
TOTAL FUND BALANCES	<u><u>256,930</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 292,217</u></u>

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

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

June 30, 2012

TOTAL GOVERNMENTAL FUND BALANCES	\$ 256,930
Capital assets used in governmental activities	<u>70,760</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS	<u><u>\$ 327,690</u></u>

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

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

Period from August 9, 2010 (Date of Inception) to June 30, 2012

	GENERAL FUND
GENERAL REVENUES	
Contributions	\$ 311,605
District funding	786,640
Federal grants	644,249
Food and student fees	3,946
Other	1,270
Total general revenues	<u>1,747,710</u>
EXPENDITURES	
Employee compensation and benefits	703,160
Food service	63,407
Instructional	144,636
Occupancy	130,255
Office	66,865
Organizational development	56,072
Other	43,519
Professional services and fees	45,906
Staff development	54,996
Transportation	101,344
Capital outlays	80,620
Total expenditures	<u>1,490,780</u>
CHANGE IN FUND BALANCES	256,930
FUND BALANCES, BEGINNING OF PERIOD	<u>-</u>
FUND BALANCES, END OF PERIOD	<u><u>\$ 256,930</u></u>

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

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

Period from August 9, 2010 (Date of Inception) to June 30, 2012

NET CHANGE IN FUND BALANCES AS REPORTED IN THE GOVERNMENTAL FUNDS STATEMENTS	\$ 256,930
AMOUNTS REPORTED AS EXPENDITURES IN THE GOVERNMENTAL FUNDS NOT INCLUDED AS EXPENSES IN THE SCHOOL-WIDE STATEMENTS:	
Capital outlays	80,620
EXPENSES IN THE SCHOOL-WIDE STATEMENTS NOT INCLUDED IN THE GOVERNMENTAL FUNDS:	
Depreciation expense	<u>(9,860)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS	<u>\$ 327,690</u>

See accompanying notes to financial statements.

NASHVILLE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nashville Preparatory Charter School (the School) operates as Nashville Prep. The School was incorporated on August 9, 2010, as a Tennessee nonprofit corporation. Pursuant to 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 November 23, 2010, to operate a charter school in Nashville, Tennessee. The School began classes in August 2011 with fifth grade classes, and added sixth grade classes for the 2012-2013 school year. The School intends to add additional grade levels through twelfth grade during each of the upcoming school years.

Per the School's charter agreement, enrollment in the school is open to any student within the MNPS 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 currently enrolls students in grades five and six. The Charter School Agreement currently allows 92 students per grade.

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 the option to apply FASB pronouncements issued after that date to its 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 ("GASB 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. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due.

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.

GASB 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 improvements 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 Basic Education Program (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 allocated indirect costs 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. GASB 34 sets forth minimum criteria for the determination of major funds. The School's only major fund is the General Fund, which is also 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, 2012.

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The School has implemented Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions ("GASB 54"). GASB 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 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.

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 executive director and personnel, under supervision of the executive director, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Management's Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that such estimates have been based on reasonable assumptions and are appropriate. Actual results could differ from those estimates.

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 by management.

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, 2012, 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. There were no uninsured balances at June 30, 2012.

Receivables - Receivables represent amounts due from grants or funding which have been approved but not received. All receivables are reported at estimated collectible amounts. The allowance for uncollectible accounts was zero at June 30, 2012.

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. The School follows the practice of capitalizing all expenditures for property and equipment items over \$500.

Estimated useful lives of capital assets is as follows:

Furniture	7 years
Computer equipment	5 years
Office equipment	5 years

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 required 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, 2012.

Income Taxes - The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The School's federal information and income tax returns for all tax years are subject to examination by the IRS as the year ended June 30, 2011 was the School's first year of existence.

Budgetary Comparison Statement - The School is not required to adopt a legally binding budget; therefore no budgetary comparison statement of the General Fund has been presented.

Review of Subsequent Events - The Company performed a review of subsequent events through December 28, 2012, the date the financial statements were available to be issued, and concluded that no events or transactions occurred during that period requiring recognition or disclosure.

3. CAPITAL ASSETS

Capital assets activity for governmental activities for the period ended June 30, 2012 was as follows:

	<u>August 9, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2012</u>
Furniture	\$ -	\$ 8,680	\$ -	\$ 8,680
Computer equipment	-	63,884	-	63,884
Office equipment	-	8,056	-	8,056
	-	80,620	-	80,620
Accumulated depreciation	-	(9,860)	-	(9,860)
	<u>\$ -</u>	<u>\$ 70,760</u>	<u>\$ -</u>	<u>\$ 70,760</u>

Depreciation expense was charged to governmental activities for the period ended June 30, 2012 as follows:

Student instruction and services	\$ 6,487
Administration	<u>3,373</u>
Total	<u>\$ 9,860</u>

4. DEBT

The School has a line of credit with a bank in the amount of \$150,000. The loan bears interest at prime, but not less than 5%, is secured by substantially all assets, and matures in September 2013. There were no outstanding borrowings on the line of credit at June 30, 2012.

5. LEASES

The facilities used to provide educational services are provided under a current operating lease arrangement with Tennessee State University. The lease terminates July 31, 2013. Under the terms of the lease, the School paid rent expense of \$111,684 for the period ended June 30, 2012. The School also leases copier equipment under operating leases that expire during the year ending June 30, 2016. Total rent expense for all leases for the period ended June 30, 2012 totaled \$124,426.

A summary of future minimum rental payments required under the non-cancellable operating leases is as follows:

2012	\$ 214,724
2013	31,689
2014	15,022
2015	<u>3,353</u>
Total	<u>\$ 264,788</u>

6. RETIREMENT PLANS

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. 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 - Teacher participants are required to contribute 5% of their salary to the SETHEEPP. 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 June 30, 2012, was 9.05% 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.gov/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 June 30, 2012 was 15.416% of annual covered payroll.

The School's contributions for both teachers and non-teachers are nonrefundable to either the School or its employees. The School's expense, related to both plans for the period ended June 30, 2012 totaled \$30,138.

7. CONCENTRATIONS

The School received gross funding of \$786,640, which is approximately 45% of its funding, for the period ended June 30, 2012 from MNPS based on the State of Tennessee's Basic Education Program (BEP). BEP funding is designated to schools based on student attendance.

The School received gross funding of \$644,249 from Federal agencies as a subrecipient, which is approximately 37% of its total funding for the period ended June 30, 2012.

One donor comprised approximately 80% of the School's total contributions (18% of total revenues) for the period ended June 30, 2012.

SUPPLEMENTARY INFORMATION

NASHVILLE PREPARATORY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

Period from August 9, 2010 (Date of Inception) to June 30, 2012

Federal Grantor/ Pass-through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>FEDERAL AWARDS</u>						
<u>Department of Agriculture</u>						
School Breakfast Program	10.553	N/A	\$ -	\$ 13,544	\$ 15,225	\$ (1,681)
National School Lunch Program	10.555	N/A	-	32,680	37,955	(5,275)
National School Afterschool Snacks Program	10.555	N/A	-	8,792	10,227	(1,435)
Total program 10.555			-	41,472	48,182	(6,710)
<u>Department of Education</u>						
<u>Passed through Tennessee Department of Education, Passed through Metro Nashville Public Schools</u>						
Public Charter Schools Program	84.282A	N/A	-	507,614	507,614	-
Special Education Grants to States (IDEA)	84.027	N/A	-	25,617	25,617	-
Title 1 Basic, Concentration, Targeted and Education Finance Incentive Grants	84.010	N/A	-	74,432	84,189	(9,757)
TOTAL FEDERAL AWARDS			-	662,679	680,827	(18,148)

NASHVILLE PREPARATORY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

Period from August 9, 2010 (Date of Inception) to June 30, 2012

Federal Grantor/ Pass-through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>STATE FINANCIAL ASSISTANCE</u>						
<u>Tennessee Department of Education</u>						
<u>Passed through Metro Nashville Public Schools</u>						
Basic Education Program	N/A	N/A	-	771,640	771,640	-
Basic Education Program	N/A	N/A	-	15,000	15,000	-
TOTAL STATE FINANCIAL ASSISTANCE			-	786,640	786,640	-
TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE			\$ -	\$ 1,449,319	\$ 1,467,467	\$ (18,148)

Note - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the grant activity of Nashville Preparatory Charter School, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the State of Tennessee Comptroller of the Treasury's, *Audit Manual for Local Governmental Units and Other Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**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
Nashville Preparatory Charter School
Nashville, Tennessee

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nashville Preparatory Charter School (a nonprofit corporation) as of and for the period from August 9, 2010 (Date of Inception) to June 30, 2012, which collectively comprise the Nashville Preparatory Charter School's basic financial statements and have issued our report thereon dated December 28, 2012. 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.

Internal Control over Financial Reporting

Management of Nashville Preparatory Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Nashville Preparatory Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nashville Preparatory Charter 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nashville Preparatory Charter 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-1 through 2012-4.

We also noted certain matters that we reported to management of Nashville Preparatory Charter School in a separate letter dated December 28, 2012.

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and State of Tennessee governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

Cam, Riggs & Ingram

Nashville, Tennessee
December 28, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

To the Board of Directors
Nashville Preparatory Charter School
Nashville, Tennessee

Compliance

We have audited Nashville Preparatory Charter School's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Nashville Preparatory Charter School's major federal program for the year ended June 30, 2012. Nashville Preparatory Charter School's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Nashville Preparatory Charter School's management. Our responsibility is to express an opinion on Nashville Preparatory Charter School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nashville Preparatory Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Nashville Preparatory Charter School's compliance with those requirements.

In our opinion, Nashville Preparatory Charter School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1 through 2012-4.

Internal Control over Compliance

Management of Nashville Preparatory Charter School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Nashville Preparatory Charter School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Nashville Preparatory Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Nashville Preparatory Charter School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Nashville Preparatory Charter School's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, State of Tennessee governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

Car. Riggs & Ingram

Nashville, Tennessee
December 28, 2012

NASHVILLE PREPARATORY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issues: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified that are not considered to be material weaknesses?

None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal controls over major programs:

Material weaknesses identified? No

Significant deficiencies identified that are not considered to be material weaknesses?

None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of
OMB Circular A-133? Yes

Identification of Major Programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
---------------------	-------------------------------------------

84.282	Charter Schools
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Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

NASHVILLE PREPARATORY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

QUESTIONED COSTS

FINDING 2012-1

Condition: Adequate documentation could not be located for four of the grant disbursements in the sample of 25, therefore the nature of those transactions could not be verified.

Criteria: The Charter School Planning and Implementation Grant requires that recipients maintain accounting records and other evidence for costs incurred, with the provision that records shall be kept available by the grantee during the grant period and thereafter for five full years from the date of final payment.

Effects: Without adequate support, the nature and the allowability of such costs could not be determined.

Questioned Costs: A sample of 25 transactions totaling \$2,817 was selected from a population of 1,044 transactions totaling \$285,708. Tests of the sample detected four transactions totaling \$2,107 for which proper support was not maintained.

\$

2,107

Cause: Proper documentation was not maintained to support the transaction. Instances occurred during the transition between business managers.

Recommendation: All supporting documentation for grant transactions should be maintained for five full years.

Views of Responsible Officials and Planned Corrective Actions: The questioned costs all occurred under a former employee of Nashville Prep. Nashville Prep's financial policies and procedures require that we maintain supporting evidence for all costs, and our current staff has been trained on this policy.

FINDING 2012-2

Condition: Documentation supporting the search of the suspended and debarred list for a potential vendor was not maintained. As a result it could not be determined if the School had searched the list to verify that the vendor was not an excluded party.

NASHVILLE PREPARATORY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

Criteria: Federal regulations require organizations to determine if certain vendors and subrecipients are eligible to receive funding from federal grants, directly or indirectly. This is required for vendors and subrecipients receiving more than \$25,000.

Effects: With no support for the search maintained, it could not be determined if the school had researched the suspended and debarred listing to determine if the vendor was an excluded party. The School could have potentially awarded federal awards to an excluded party.

Cause: Proper documentation was not maintained to support the search. Responsible personnel may not have been aware of the requirement.

Recommendation: Research all vendors and subrecipients receiving more than \$25,000 in grant funds, directly or indirectly, to insure they are not an excluded party. Retain documentation of the search.

Views of Responsible Officials and Planned Corrective Actions: Nashville Prep will comply with the recommendation. We have updated the shared calendar to provide an annual reminder to check our vendors against the list, and we have trained our staff to check all new vendors against the list.

FINDING 2012-3

Condition: While gaining an understanding of the school's internal control system, it was determined that the School's policy does not require all funds to be deposited within three business days, and that some deposits were made after three business days.

Criteria: Tennessee requires that school funds be deposited within three business days of receipt.

Effects: A delay in depositing funds increases the risk of funds being misappropriated or misplaced.

Cause: School officials were not aware of the requirement that school funds be deposited within three business days of receipt.

Recommendation: Deposit all funds within three business days of receipt.

NASHVILLE PREPARATORY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

Views of Responsible Officials and Planned Corrective Actions: Nashville Prep will comply with the recommendation. We have trained our staff to ensure that all deposits are made within three business days of receipt.

FINDING 2012-4

Condition: While gaining an understanding of the School's internal control system, it was determined that the School does not require dual signatures on all checks, only checks over \$5,000.

Criteria: Tennessee requires that all schools require dual signatures on all checks.

Effects: Allowing disbursements with only one signature increases the risk that funds could be misappropriated.

Cause: School officials were not aware of the legal requirement that all checks require dual signatures.

Recommendation: The School should require dual signatures on all checks.

Views of Responsible Officials and Planned Corrective Actions: Nashville Prep has amended its check signing policy to require two signatures on all checks.