

LEAD ACADEMY
FINANCIAL STATEMENTS
June 30, 2010

LEAD ACADEMY
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
LEAD Academy
Nashville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of LEAD Academy (the "Academy") as of and for the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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, 2010, 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 December 13, 2010, on our consideration of the Academy'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 LEAD Academy's financial statements as a whole. 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.

Francis Owen & Harold PLLC

Nashville, Tennessee
December 13, 2010

**LEAD ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010**

Our discussion and analysis of LEAD Academy's annual financial performance provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2010. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Academy exceeded its liabilities by \$542,586
- Net assets increased \$160,975 during the year
- Outlays for new capital assets totaled \$38,677
- Total revenues of \$2,518,104 were comprised of Federal Passthrough Funds – 9%, District Funds – 73%, and Charitable Giving/Other – 18% in 2010

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 Academy as a whole and then proceed to a detailed look at specific financial activities of the Academy.

Reporting the Academy as a Whole

The statement of net assets and statement of activities:

In general, users of these financial statements want to know if the Academy 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 Academy as a whole and about the Academy'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 eight.

The statement of net assets reports the Academy's net assets (total assets less total liabilities). Private sector entities would report retained earnings. The Academy'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 Academy'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 Academy.

**LEAD ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010**

Reporting the Academy's Funds

Fund Financial Statements:

The Academy's fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balances, begin on page ten. They provide detailed information about the Academy's most significant funds, not the Academy as a whole. Funds are established by the Academy to help manage money for particular purposes and compliance with various grant provisions.

The Academy'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 Academy 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

The Academy's assets exceeded the Academy's liabilities at the close of the fiscal year, resulting in net assets of \$542,586. The Academy's net assets include \$305,791 of cash, all of which is available to meet the Academy's ongoing activities.

As of June 30, 2010, the Academy had invested \$354,932 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 Academy expects additional capital asset investments in the 2010-2011 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 Academy's 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 Academy 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 ended July 31, 2014, but management intends to seek lease renewal at the end of the current lease.

LEAD ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010

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

A summary of the Academy's net assets is as follows as of June 30, 2010:

Current assets	\$ 468,261
Capital assets	<u>134,426</u>
Total assets	<u>602,687</u>
Total liabilities	<u>60,101</u>
Net assets	
Invested in capital assets, net of capital lease obligations	128,581
Restricted	160,869
Unrestricted	<u>253,136</u>
Total net assets	<u>\$ 542,586</u>

Changes in Net assets

The Academy's total net assets increased \$160,975 during the 2010 fiscal year. The increase in the Academy's net assets indicates that the Academy had more incoming revenues than outgoing expenses during the year. The Academy had budgeted an increase of \$805,100 in 2010. Total revenues generated from government grants, governmental funds, foundation grants and donations were \$2,518,104 during the 2010 fiscal year.

Contributions from individuals and organizations of \$436,622 were higher than expected due primarily to foundation grants. These contributions are crucial to the Academy's ability to provide end of school experiences for 100% of our students and more than 120 service learning projects for all students.

A schedule of the Academy's revenue and expenses is as follows for the year ended June 30, 2010:

Revenues	
Contributions	\$ 436,622
District funding	1,838,739
Federal subrecipient grants	229,378
Other income	12,465
State and local funding	<u>900</u>
	<u>2,518,104</u>

LEAD ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010

Expenses	
Depreciation	44,762
Instructional	103,628
Occupancy cost	308,715
Office expense	34,967
Organizational development	16,451
Other expenses	30,631
Professional and service fees	114,014
Salaries, wages and benefits	1,609,275
Staff development	59,816
Transportation	26,835
Other student services	<u>8,035</u>
	<u>2,357,129</u>
Change in net assets	<u>\$ 160,975</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The Academy's funds, as presented on the balance sheet on page ten reported a combined fund balance of \$408,160. The majority of the Academy's total funds are in the General Fund which is the chief operating fund of the Academy. The Academy has no other major funds. Nonmajor funds comprise less than 10% of the Academy's total funds.

Due to the different basis of accounting, there is a difference between the amounts reported under the Academy's funds and the amounts reported as school wide. For the June 30, 2010 year end, the difference consists of capital assets which are not reported in the Academy's funds.

ACADEMY ACTIVITIES

The Academy gives hope to families who see education as a 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2010**

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 art and 82% to 90% in math. Attendance for the 2009-2010 school year was 97% as compared to Metropolitan Nashville Public Schools' 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 2011 enrollment is projected to be 374. 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 2011, the Academy expects to raise approximately \$550,000 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 ACADEMY'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 Academy's finances and to demonstrate the Academy's accountability of the money it receives. If you have questions about this report or need additional financial information, contact the Academy'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, 2010

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 305,791
Prepaid items	1,601
Receivables	160,869
Capital assets, net	<u>134,426</u>
Total assets	<u>602,687</u>
Liabilities:	
Accounts payable	32,726
Accrued expenses	21,530
Capital lease obligations	<u>5,845</u>
Total liabilities	<u>60,101</u>
Net assets:	
Invested in capital assets, net of related debt	128,581
Restricted	160,869
Unrestricted	<u>253,136</u>
Total net assets	<u><u>\$ 542,586</u></u>

See accompanying notes.

LEAD ACADEMY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

		Functions		
		Student Instruction and Services	Administration	Fundraising
	Total			
Expenses:				
Depreciation	\$ 44,762	\$ 25,340	\$ 19,422	\$ -
Instructional	103,628	99,352	4,276	-
Occupancy cost	308,715	262,408	46,307	-
Office expense	34,967	829	33,484	654
Organizational development	16,451	-	199	16,252
Other expenses	30,631	22,911	7,720	-
Professional and service fees	114,014	-	114,014	-
Salaries, wages and benefits	1,609,275	1,329,136	280,139	-
Staff development	59,816	50,165	9,651	-
Transportation	26,835	26,835	-	-
Other student services	8,035	8,035	-	-
Total expenses	2,357,129	1,825,011	515,212	16,906
Program revenues:				
Contributions	31,468	31,468	-	-
District funding	93,229	93,229	-	-
Federal subrecipient grants	229,378	229,378	-	-
State/local funding	900	900	-	-
Net program expenses	2,002,154	\$ 1,470,036	\$ 515,212	\$ 16,906
General revenues:				
Contributions	405,154			
District funding	1,745,510			
Other income	12,465			
Total general revenues	2,163,129			
Change in net assets	160,975			
Net assets - beginning of year	381,611			
Net assets - end of year	\$ 542,586			

See accompanying notes.

**LEAD ACADEMY
BALANCE SHEET
June 30, 2010**

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 305,791
Prepaid items	1,601
Receivables	<u>160,869</u>
Total assets	<u><u>\$ 468,261</u></u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 32,726
Accrued expenses	21,530
Capital lease obligations	<u>5,845</u>
Total liabilities	<u>60,101</u>
Fund balances:	
Restricted	160,869
Unassigned	<u>247,291</u>
Total fund balances	<u>408,160</u>
Total liabilities and fund balances	<u><u>\$ 468,261</u></u>

See accompanying notes.

LEAD ACADEMY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2010

Total Governmental Fund Balances	\$ 408,160
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*Amounts reported for governmental activities in the
statements 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.

134,426
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Net Assets of Governmental Activities

\$ 542,586
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See accompanying notes.

LEAD ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS
For Year Ended June 30, 2010

	<u>General Fund</u>
Revenues:	
Contributions	\$ 436,622
District funding	1,838,739
Federal subrecipient grants	229,378
Other income	12,465
State/local funding	<u>900</u>
Total revenues	<u>2,518,104</u>
Expenses:	
Instructional	103,628
Occupancy cost	308,715
Office expense	34,967
Organizational development	16,451
Other expenses	30,631
Professional and service fees	114,014
Salaries, wages and benefits	1,609,275
Staff development	59,816
Transportation	26,835
Other student services	8,035
Capital outlays	<u>38,677</u>
Total expenses	<u>2,351,044</u>
Net change in fund balances	167,060
Fund balances - beginning of year	<u>241,100</u>
Fund balances - end of year	<u><u>\$ 408,160</u></u>

See accompanying notes.

LEAD ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
June 30, 2010

Net Change in Fund Balances - Total	
Governmental Funds	\$ 167,060
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Capital outlays, reported as expenditures in governmental funds are shown as capital assets in the statement of net assets	38,677
Depreciation expense on governmental capital assets is included only in the governmental activities in the statement of activities	<u>(44,762)</u>
Total	<u>(6,085)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 160,975</u></u>

See accompanying notes.

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and procedures followed by the LEAD Academy (the “Academy”) are as follows:

Organization

The 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 Academy 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 Academy 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 in the 2008-2009 fiscal year, an eighth grade this year, and plans to add a ninth grade in the 2010-2011 fiscal year.

Basis of Accounting

The Academy’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 Academy has the option to apply FASB pronouncements issued after that date to its business type activities and enterprise funds, the Academy has chosen not to do so.

The Academy, 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 Academy’s basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy’s major funds). The Academy’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 Academy have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements (Continued)

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 Academy as an entity and the change in the Academy'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 Academy 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 Academy's policy to utilize restricted assets first, then unrestricted assets as needed.

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Financial Statements (Continued)

The government-wide statement of activities reports both the gross and net cost of the Academy'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 statements 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 Academy allocated indirect cost between functions.

Fund Financial Statements

The financial transactions of the Academy 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 Academy's only major fund is the General Fund, which is also the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund. All of the Academy's financial resources were accounted for in the General Fund as of June 30, 2010.

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The Academy has elected early implementation of 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 Academy'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 Academy'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.

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

Committed – This classification consists of fund balances that can only be used for specific purposes established by formal action of the Academy'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 Academy intends to use for specific purposes are also classified as assigned. The Academy gives the authority to assign amounts to specific purposes to the Academy'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 Academy 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, 2010, the Academy's cash and cash equivalents were deposited in one financial institution. The Academy routinely maintains deposit balances in excess of federally insured limits with certain financial institutions.

Receivables

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

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Academy follows the practice of capitalizing all expenditures for property and equipment items over \$250.

In-kind Contributions

The Academy 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 Academy 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 Academy as of June 30, 2010.

Income Taxes

The Academy 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.

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Budgetary Comparison Statement

The Academy is not required to adopt a legally binding budget, therefore no budgetary comparison statement of the General Fund has been presented.

Subsequent Events

The Academy has evaluated subsequent events for potential recognition and disclosure through December 13, 2010, the date the financial statements were available to be issued.

NOTE 2 – CAPITAL ASSETS

Capital assets consist of the following:

	<u>June 30, 2009</u>	<u>Government-Wide</u>		<u>June 30, 2010</u>
		<u>Additions</u>	<u>Deletions</u>	
Computer equipment	\$ 86,865	\$ 799	\$ -	\$ 87,664
Furniture and fixtures	12,510	16,549	-	29,059
Machinery and equipment	31,636	20,035	-	51,671
Text book	33,694	1,294	-	34,988
School buses	<u>151,550</u>	<u>-</u>	<u>-</u>	<u>151,550</u>
	316,255	38,677	-	354,932
Accumulated depreciation	<u>(175,744)</u>	<u>(44,762)</u>	<u>-</u>	<u>(220,506)</u>
	<u>\$ 140,511</u>	<u>\$ (6,085)</u>	<u>\$ -</u>	<u>\$ 134,426</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Student instruction and services	\$ 25,340
Administration	<u>19,422</u>
Total governmental activities depreciation expense	<u>\$ 44,762</u>

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010

NOTE 3 – FEDERAL FUNDS

The Academy 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 Academy receives the passthrough funding from Title I and Title V Part B, through Metropolitan Nashville Public Schools ("MNPS"). Title I receipts totaled \$37,917 and Title V receipts totaled \$165,183 for the year ended June 30, 2010. Amounts receivable at June 30, 2010 totaled \$24,083 and \$43,100 for Title I and Title V Part B, respectively.

NOTE 4 – OPERATING LEASE

The facilities used to provide educational services are provided under a current lease arrangement with St. Vincent De Paul Catholic Church entered into in August 2009 and terminates July 31, 2014. The lease requires an annual use fee of \$170,000 payable in equal monthly installments. Under the terms of the lease, the Academy paid rent expense of \$163,326 for the year ended June 30, 2010.

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

<u>Years Ended June 30,</u>	
2011	\$ 170,000
2012	170,000
2013	170,000
2014	<u>170,000</u>
	<u>\$ 680,000</u>

NOTE 5 – CAPITAL LEASE OBLIGATIONS

The Academy 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 Academy's books as of June 30, 2010 is \$12,200 and \$8,999, respectively, with accumulated depreciation of \$8,097 and \$6,262, respectively. The leases expire on September 15, 2010 and October 25, 2011.

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010

NOTE 5 – CAPITAL LEASE OBLIGATIONS (Continued)

As of June 30, 2010, future minimum lease payments required are as follows:

Years Ended June 30,	
2011	\$ 5,369
2012	<u>1,338</u>
Total minimum future payments	6,707
Less amount representing interest	<u>(862)</u>
	<u><u>\$ 5,845</u></u>

NOTE 6 – CONCENTRATIONS

The Academy received 69% 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, 2010 was \$1,745,510.

Per the Academy's charter agreement, enrollment in the Academy 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 Academy currently enrolls students in grades five through eight. Student enrollment may not exceed 100 students per grade.

NOTE 7 – RETIREMENT PLAN

Teacher Plan Description

The Academy 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

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010

NOTE 7 – RETIREMENT PLAN (Continued)

Teacher Plan Description (Continued)

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 SETHEPP. 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, 2010, was 6.42% of annual covered payroll.

Non-Teacher Plan Description

The Academy 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.

LEAD ACADEMY
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010

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, 2010 was 16.66% of annual covered payroll.

The Academy's contributions for both teachers and non-teachers are not refundable to either the Academy or employees. The Academy's expense, related to both plans for the year ended June 30, 2010 totaled \$93,422.

SUPPLEMENTARY INFORMATION



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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 of
LEAD Academy
Nashville, Tennessee

We have audited the financial statements of the governmental activities and each major fund of LEAD Academy (a nonprofit organization) as of and for the year ended June 30, 2010, which collectively comprise LEAD Academy's basic financial statements and have issued our report thereon dated December 13, 2010. 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

In planning and performing our audit, we considered LEAD Academy'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 LEAD Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2010-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LEAD Academy'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 is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use 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.

Francis Dent Hard PLLC

Nashville, Tennessee
December 13, 2010

LEAD ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2010

2010-01 – Segregation of Duties

Condition: The Academy does not have segregation of duties over certain areas of the financial process. Segregation of duties reduces risk by involving multiple parties in the transaction cycle reducing the ability of one person to control the complete cycle without any outside controls.

Effect: Lack of segregation of duties results in a risk of misappropriation of assets and errors. The Academy has taken steps to reduce the risk, but has not eliminated the lack of segregation of duties surrounding the cash disbursement process.

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

Recommendation: We recommend the Academy continue to review current procedures and when able, establish proper segregation of duties.

Management 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 practical or an efficient use of the Academy's limited resources. The Academy has implemented policies and procedures that help to minimize the risk associated with a lack of segregation of duties. The Academy 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 Academy 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.

LEAD ACADEMY
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2010

2009-01 Segregation of Duties

Condition and Criteria: The Academy 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 without any outside controls.

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

Current Status: The Academy has addressed several segregation of duties issues from prior audits and plans to continue improving segregation of duties during 2011.

2009-02 Accounting for Restricted Funds

Condition and Criteria: The Academy 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 Academy received restricted funds through contributions and passthrough grants. Revenue and expenditures were recorded on the Academy's books, but there was no accounting of which expenditures should be applied to restricted revenue.

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

Current Status: The Academy has structured the chart of accounts such that restricted funds are properly accounted for and tracked.

LEAD ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2010

Federal Grantor/ State Grantor/ Program Title/ Pass-through Grantor	CFDA#	Contract Number	Balance June 30, 2009	Receipts	Expenditures	Balance June 30, 2010
FEDERAL AWARDS						
U.S. Department of Education - Office of Elementary and Secondary Education						
Title I Grants to Local Educational Agencies (Passed through Metro Nashville Public Schools)	84.010		\$ -	\$ 37,917	\$ 62,000	\$ 24,083
Charter Schools (Passed through State of Tennessee Department of Education)	84.282A	GR-07-20963-00	40,905	165,183	167,378	43,100
Total Federal Awards			\$ 40,905	\$ 203,100	\$ 229,378	\$ 67,183

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 basis financial statements.