

**LEAD PUBLIC SCHOOLS, INC.
AND AFFILIATES**

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
LEAD Public Schools, Inc.
Nashville, Tennessee

We have audited the accompanying consolidated statements of financial position of LEAD Public Schools, Inc. and Affiliates (a nonprofit organization) as of June 30, 2012 and 2011 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LEAD Public Schools, Inc. and Affiliates as of June 30, 2012 and 2011 and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 18 through 21 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual organizations. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated 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 consolidated financial statements taken as a whole.

Fraser, Dean & Howard, PLLC

November 12, 2012

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

| | 2012 | 2011 |
|---|----------------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,659,680 | \$ 307,454 |
| Accounts receivable | 204,947 | 206,757 |
| Prepaid expenses and other | 113,964 | 6,569 |
| | <u>1,978,591</u> | <u>520,780</u> |
| Total current assets | 1,978,591 | 520,780 |
| Property and equipment, net | <u>299,290</u> | <u>289,536</u> |
| Total assets | <u><u>\$ 2,277,881</u></u> | <u><u>\$ 810,316</u></u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 138,689 | \$ 136,277 |
| Accrued expenses | 208,924 | 114,563 |
| Capital lease obligations, current portion | 35,819 | 34,343 |
| | <u>383,432</u> | <u>285,183</u> |
| Total current liabilities | 383,432 | 285,183 |
| Note payable | 500,000 | - |
| Capital lease obligations, noncurrent portion | <u>74,703</u> | <u>109,395</u> |
| Total liabilities | <u>958,135</u> | <u>394,578</u> |
| Net assets: | | |
| Unrestricted | 1,319,746 | 165,738 |
| Temporarily restricted | <u>-</u> | <u>250,000</u> |
| Total net assets | <u>1,319,746</u> | <u>415,738</u> |
| Total liabilities and net assets | <u><u>\$ 2,277,881</u></u> | <u><u>\$ 810,316</u></u> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|----------------------------|-----------------------------------|----------------------------|
| Public support and revenue: | | | |
| District funding | \$ 5,691,094 | \$ - | \$ 5,691,094 |
| Contributions and other | 1,419,666 | - | 1,419,666 |
| Federal grants | 916,569 | - | 916,569 |
| Net assets released from restrictions | <u>250,000</u> | <u>(250,000)</u> | <u>-</u> |
| Total public support and revenue | <u>8,277,329</u> | <u>(250,000)</u> | <u>8,027,329</u> |
| Expenses: | | | |
| Student instruction and services | 6,358,296 | - | 6,358,296 |
| Administration | 688,292 | - | 688,292 |
| Fundraising | <u>76,733</u> | <u>-</u> | <u>76,733</u> |
| Total expenses | <u>7,123,321</u> | <u>-</u> | <u>7,123,321</u> |
| Change in net assets | 1,154,008 | (250,000) | 904,008 |
| Net assets at beginning of year | <u>165,738</u> | <u>250,000</u> | <u>415,738</u> |
| Net assets at end of year | <u><u>\$ 1,319,746</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,319,746</u></u> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|--------------------------|-----------------------------------|--------------------------|
| Public support and revenue: | | | |
| District funding | \$ 3,121,926 | \$ - | \$ 3,121,926 |
| Contributions | 272,527 | 300,000 | 572,527 |
| Federal grants | 441,805 | - | 441,805 |
| Net assets released from restrictions | <u>50,000</u> | <u>(50,000)</u> | <u>-</u> |
| Total public support and revenue | <u>3,886,258</u> | <u>250,000</u> | <u>4,136,258</u> |
| Expenses: | | | |
| Student instruction and services | 3,447,463 | - | 3,447,463 |
| Administration | 739,531 | - | 739,531 |
| Fundraising | <u>76,112</u> | <u>-</u> | <u>76,112</u> |
| Total expenses | <u>4,263,106</u> | <u>-</u> | <u>4,263,106</u> |
| Change in net assets | (376,848) | 250,000 | (126,848) |
| Net assets at beginning of year | <u>542,586</u> | <u>-</u> | <u>542,586</u> |
| Net assets at end of year | <u><u>\$ 165,738</u></u> | <u><u>\$ 250,000</u></u> | <u><u>\$ 415,738</u></u> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

| | Student Instruction and Services | Supporting Services | | Total Expenses |
|-------------------------------|---|----------------------------|--------------------|---------------------------|
| | | Administration | Fundraising | |
| Salaries, wages and benefits | \$ 4,688,941 | \$ 323,918 | \$ 71,633 | \$ 5,084,492 |
| Occupancy cost | 739,403 | 35,474 | - | 774,877 |
| Instructional | 305,172 | 2,482 | - | 307,654 |
| Professional and service fees | 21,304 | 252,620 | 4,040 | 277,964 |
| Staff development | 167,801 | 27,110 | - | 194,911 |
| Transportation | 124,574 | - | - | 124,574 |
| Other expenses | 94,098 | 16,858 | - | 110,956 |
| Depreciation | 103,346 | 4,011 | - | 107,357 |
| Office expense | 76,466 | 13,667 | - | 90,133 |
| Outreach | 19,899 | 3,512 | - | 23,411 |
| Food service | 14,451 | - | - | 14,451 |
| Organizational development | 2,841 | 8,640 | 1,060 | 12,541 |
| | <u>\$ 6,358,296</u> | <u>\$ 688,292</u> | <u>\$ 76,733</u> | <u>\$ 7,123,321</u> |
| Total expenses | <u>\$ 6,358,296</u> | <u>\$ 688,292</u> | <u>\$ 76,733</u> | <u>\$ 7,123,321</u> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

| | Student Instruction and Services | Supporting Services | | Total Expenses |
|-------------------------------|---|----------------------------|-------------------------|----------------------------|
| | | Administration | Fundraising | |
| Salaries, wages and benefits | \$ 2,406,978 | \$ 409,577 | \$ 67,477 | \$ 2,884,032 |
| Occupancy cost | 550,378 | 40 | - | 550,418 |
| Instructional | 181,113 | 7,748 | - | 188,861 |
| Professional and service fees | - | 174,287 | - | 174,287 |
| Office expense | 694 | 104,801 | 1,041 | 106,536 |
| Staff development | 79,880 | 19,628 | - | 99,508 |
| Depreciation | 81,293 | 1,570 | - | 82,863 |
| Food service | 70,104 | - | - | 70,104 |
| Transportation | 54,457 | - | - | 54,457 |
| Other expenses | 22,566 | 21,385 | - | 43,951 |
| Organizational development | - | 495 | 7,594 | 8,089 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total expenses | <u><u>\$ 3,447,463</u></u> | <u><u>\$ 739,531</u></u> | <u><u>\$ 76,112</u></u> | <u><u>\$ 4,263,106</u></u> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|----------------------------|--------------------------|
| Cash flows from operating activities: | | |
| Change in net assets: | \$ 904,008 | \$ (126,848) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Receipt of donated stock | (155,872) | - |
| Gain on sale of donated stock | (8,817) | - |
| Depreciation | 107,357 | 82,863 |
| Loss on disposal of property and equipment | - | 690 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,810 | (45,888) |
| Prepaid expenses and other | (107,395) | (4,968) |
| Accounts payable | 2,412 | 103,551 |
| Accrued expenses | 94,361 | 93,033 |
| Net cash provided by operating activities | <u>837,864</u> | <u>102,433</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 164,689 | - |
| Purchase of property and equipment | <u>(117,111)</u> | <u>(64,901)</u> |
| Net cash provided by (used in) investing activities | <u>47,578</u> | <u>(64,901)</u> |
| Cash flows from financing activities: | | |
| Proceeds from note payable | 500,000 | - |
| Payments on capital lease obligations | <u>(33,216)</u> | <u>(35,869)</u> |
| Net cash provided by (used in) financing activities | <u>466,784</u> | <u>(35,869)</u> |
| Net increase in cash and cash equivalents | 1,352,226 | 1,663 |
| Cash and cash equivalents at beginning of year | <u>307,454</u> | <u>305,791</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 1,659,680</u></u> | <u><u>\$ 307,454</u></u> |
| Supplemental schedule of noncash investing and financing activities: | | |
| Receipt of donated stock | <u><u>\$ 155,872</u></u> | <u><u>\$ -</u></u> |
| Property and equipment acquired by capital lease | <u><u>\$ -</u></u> | <u><u>\$ 173,762</u></u> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LEAD Public Schools, Inc. (“LPS”) was incorporated during 2010 as a charter management organization that starts and operates public charter schools in Middle Tennessee. Public charter schools are public schools operated separately from the local school board. Currently, LPS operates four charter schools as single member limited liability corporations consisting of LEAD Academy, Nonprofit, LLC (the “Academy”), Cameron College Prep, Nonprofit, LLC (“Cameron”), Brick Church College Prep, Nonprofit, LLC (“Brick Church”), and LEAD Prep Southeast, Nonprofit, LLC (“Southeast”).

In accordance with the Academy’s, Cameron’s, Brick Church’s, and Southeast’s charter agreements, enrollment is open to any student within the Metropolitan Nashville Public Schools (“MNPS”) System who resides in Davidson County. The Academy currently enrolls students in grades five through ten. Cameron began classes in August 2011 with students in the fifth grade. Student enrollment at the Academy may not exceed 100 students per grade. As of June 30, 2012, both Brick Church and Southeast were in the planning phases and had not yet enrolled students.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements present the financial position and results of operations of LPS, the Academy, Cameron, Brick Church, and Southeast (collectively the “Organization”). The Academy, Cameron, Brick Church, and Southeast were organized in accordance with Section 6(1)(a) of the Tennessee Public Charter School Act of 2002 (the “Act”). 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. The Academy has since added a grade each year and will continue to do so through the twelfth grade. Cameron entered into a Charter School Agreement with the Metropolitan Nashville Board of Education on October 1, 2010, to operate a charter school in Nashville, Tennessee. Cameron began classes in August 2011 with fifth grade and plans to add a grade each subsequent year through the eighth grade. Brick Church entered into a Charter School Agreement with the Tennessee Achievement School District on June 1, 2012, to operate a charter school in Nashville, Tennessee. Brick Church plans to begin classes in August 2012 with fifth grade and plans to add a grade each subsequent year through the eighth grade. Southeast entered into a Charter School Agreement with the Metropolitan Nashville Board of Education on October 25, 2011, to operate a charter school in Nashville, Tennessee. Southeast is currently in the planning stages and has no students enrolled as of June 30, 2012.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The Organization presents its consolidated financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) guidance for not-for-profit organizations. Under this guidance, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned for unrestricted purposes. The Organization had no permanently restricted net assets at June 30, 2012 or 2011.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments with original maturities of less than three months to be cash equivalents. The cash accounts are held primarily by financial institutions and at times may exceed amounts that are federally insured.

Accounts Receivable

Accounts receivable represent amounts due from grants or other sources which have been approved but not received. All receivables are reported at estimated collectible amounts.

Property and Equipment

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 consolidated 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.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials, Services and Assets

Donated materials and equipment, if any, are reflected as contributions in the accompanying consolidated financial statements at their estimated values at the date of receipt. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

A number of unpaid volunteers have made significant contributions of their time to assist in fund-raising and special projects. However, these services do not meet the requirements above and have not been recorded.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Grants

The Organization receives federal financial assistance through state agencies. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled \$4,220 and \$1,521 for the years ended June 30, 2012 and 2011, respectively.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated based upon management's estimate among the programs and supporting services benefited.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

The Organization follows FASB ASC guidance clarifying the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying consolidated financial statements. Tax years that remain open for examination include years ended June 30, 2009 through June 30, 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization evaluated subsequent events through November 12, 2012, when these consolidated financial statements were available to be issued. Except as discussed in Note 11, management is not aware of any significant events that occurred subsequent to the consolidated statement of financial position date but prior to the filing of this report that would have a material impact on the accompanying consolidated financial statements.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|--------------------------|--------------------------|
| Computer equipment | \$ 155,162 | \$ 112,066 |
| Furniture and fixtures | 79,598 | 54,076 |
| Office equipment | 70,450 | 57,957 |
| Textbooks | 34,988 | 34,988 |
| Leasehold improvements | 12,000 | - |
| School buses | <u>355,812</u> | <u>331,812</u> |
| | 708,010 | 590,899 |
| Less accumulated depreciation | <u>(408,720)</u> | <u>(301,363)</u> |
| | <u><u>\$ 299,290</u></u> | <u><u>\$ 289,536</u></u> |

Depreciation expense totaled \$107,357 and \$82,863 for the years ended June 30, 2012 and 2011, respectively.

NOTE 3 – CAPITAL LEASE OBLIGATIONS

During August 2010, the Organization entered into a capital lease agreement for two 90-passenger school buses. Lease payments totaling \$4,413 are due monthly during each academic year. The amount capitalized and included in property and equipment as of June 30, 2012 and 2011 is \$173,762 with accumulated depreciation of \$66,609 and \$31,856, respectively. The lease expires in May 2015.

As of June 30, 2012, future minimum lease payments required are as follows:

| | |
|-----------------------------------|--------------------------|
| Years Ending <u>June 30,</u> | |
| 2013 | \$ 35,819 |
| 2014 | 39,713 |
| 2015 | <u>43,453</u> |
| Total minimum future payments | 118,985 |
| Less amount representing interest | <u>(8,463)</u> |
| | <u><u>\$ 110,522</u></u> |

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 4 – OPERATING LEASES

The facilities used to provide educational services of the Academy are provided under an operating lease arrangement with St. Vincent De Paul Catholic Church entered into in August 2009 that 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 approximately \$170,000 for the years ended June 30, 2012 and 2011, respectively. Per the terms of the lease, future minimum lease payments required under the operating lease agreement are as follows:

| Years Ending <u>June 30,</u> | |
|---------------------------------|-------------------|
| 2013 | \$ 170,000 |
| 2014 | <u>170,000</u> |
| | <u>\$ 340,000</u> |

The Academy also entered into a lease arrangement with MNPS for certain educational facilities. The original lease was for a one year term ending June 30, 2011 and was renewed through June 30, 2012. The lease required monthly payments of \$20,585 and \$12,143 for the years ended June 30, 2012 and 2011, respectively. Under the terms of the lease, the Academy paid rent expense of \$247,437 and \$133,568 for the years ended June 30, 2012 and 2011, respectively.

Subsequent to June 30, 2012, the Organization entered into a lease arrangement for office space to house the Organization's central office (Note 11).

NOTE 5 – NOTE PAYABLE

In April 2012, the Organization entered into a loan agreement with CSGF Tennessee, LLC. Under terms of the loan, the Organization received \$500,000 to be used for general support and management of the Organization. The note bears interest at 3.25%. The entire principal amount plus any accrued and unpaid interest is due on June 30, 2017; however, under terms of the loan, the note may be forgiven provided the Organization meets certain milestones.

NOTE 6 – LINE OF CREDIT

The Organization entered into a line of credit agreement with a financial institution allowing for maximum borrowings of \$200,000 and required monthly interest payments calculated at the bank's prime rate. The line of credit matured February 16, 2012. There were no outstanding amounts under this line of credit as of June 30, 2012 or 2011. Subsequent to June 30, 2012, the Organization entered into a new line of credit agreement with another financial institution (Note 11).

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

There were no temporarily restricted net assets as of June 30, 2012. Temporarily restricted net assets as of June 30, 2011 totaled \$250,000 and were available to fund costs associated with opening Cameron during fiscal 2012.

NOTE 8 – FEDERAL FUNDS

The Organization received all federal funds as follows:

LEAD Public Schools, Inc.

During fiscal year 2012, LPS received federal passthrough funding from New Schools for New Orleans, a Louisiana nonprofit entity, under contract with the U.S. Department of Education to distribute Investing in Innovation (“i3”) grant funds. i3 revenues totaled \$287,933 for the year ended June 30, 2012. Amounts receivable at June 30, 2012, totaled \$35,578.

Also, during fiscal year 2012, LPS received federal passthrough funding from a school improvement grant through the Achievement School District. Revenues totaled \$33,150 for the year ended June 30, 2012 with the entire amount recorded as accounts receivable at June 30, 2012.

LEAD Academy, Nonprofit, LLC

The Academy receives passthrough funding from Title I through MNPS. Title I revenues totaled \$152,669 and \$164,294 for the years ended June 30, 2012 and 2011, respectively. There were no Title I amounts receivable as of June 30, 2012. Amounts receivable at June 30, 2011 totaled \$29,246.

Cameron College Prep, Nonprofit, LLC

Cameron receives passthrough funding from Title I through MNPS and Title V Part B through the Tennessee Department of Education. Title I revenues totaled \$99,313 for the year ended June 30, 2012. Title V Part B revenues totaled \$222,489 and \$277,511 for the years ended June 30, 2012 and 2011 respectively. Amounts outstanding at June 30, 2012 and 2011 totaled \$74,849 and \$177,511, respectively.

LEAD Prep Southeast, Nonprofit, LLC

Southeast received passthrough funding from Title V Part B through the Tennessee Department of Education. Title V Part B revenues totaled \$100,000 for the year ended June 30, 2012. These funds are held in cash at June 30, 2012 to be used during fiscal year 2013.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 8 – FEDERAL FUNDS (Continued)

Brick Church College Prep, Nonprofit, LLC

During fiscal year 2012, Brick Church received federal passthrough funding from a school improvement grant through the Achievement School District. Revenues totaled \$21,015 for the year ended June 30, 2012 with the entire amount recorded as accounts receivable at June 30, 2012.

NOTE 9 – CONCENTRATIONS

For the years ended June 30, 2012 and 2011, the Organization received \$5,514,466 (69%) and \$2,974,953 (72%), respectively, of its funding for operations from MNPS based on the State of Tennessee's Basic Education Program ("BEP"). BEP funding is designated to schools based on student attendance.

NOTE 10 – RETIREMENT PLAN

Plan Description

The Organization 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 members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members 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 members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service 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 member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated ("TCA"). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments ("COLA") are provided to retirees each July based on the percentage change in the Consumer Price Index ("CPI") during the previous calendar year. No COLA is granted if the 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.tn.gov/treasury/tcrs/Schools.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2012 and 2011

NOTE 10 – RETIREMENT PLAN (Continued)

Funding Policy

Most teachers are required by state statute to contribute 5.0% of salary to the plan. The employer contribution rate for the Organization is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2012 was 9.05% of annual covered payroll. The employer contribution requirement for the Organization is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2012 and 2011 were \$364,520 and \$182,937, respectively, equal to the required contributions for the year.

Subsequent to June 30, 2012, the Organization created a 403(b) plan for its noncertified employees (Note 11).

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to June 30, 2012, the Organization entered into a new lease arrangement to accommodate its central office. The lease term is for one year terminating on June 30, 2013 and requires monthly rental payments of \$733.

Subsequent to June 30, 2012, the Organization entered into a new line of credit agreement with a financial institution to provide maximum borrowings of \$500,000. The line of credit requires monthly interest payments calculated at the bank's prime rate and matures in July 2013.

Subsequent to June 30, 2012, the Organization's noncertified employees are covered under a newly created 403(b) plan. Under terms of the plan, employee contributions are matched 200% up to a maximum match of 6% of eligible compensation by the Organization.

SUPPLEMENTAL INFORMATION

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2012

| | LEAD Public Schools, Inc. | LEAD Academy Nonprofit, LLC | Cameron College Prep Nonprofit, LLC | Southeast College Prep, Nonprofit, LLC | Brick Church College Prep, Nonprofit, LLC | Eliminations | Consolidated |
|--|--------------------------------------|--|--|---|--|---------------------|---------------------|
| Assets | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$ 1,659,680 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,659,680 |
| Accounts receivable | 204,947 | - | - | - | - | - | 204,947 |
| Prepaid expenses and other | 113,964 | - | - | - | - | - | 113,964 |
| Total current assets | 1,978,591 | - | - | - | - | - | 1,978,591 |
| Investment in Academy | (71,516) | - | - | - | - | 71,516 | - |
| Investment in Cameron | 78,303 | - | - | - | - | (78,303) | - |
| Investment in Southeast | 100,000 | - | - | - | - | (100,000) | - |
| Investment in Brick Church | (14,793) | - | - | - | - | 14,793 | - |
| Property and equipment, net | 299,290 | - | - | - | - | - | 299,290 |
| Total assets | <u>\$ 2,369,875</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (91,994)</u> | <u>\$ 2,277,881</u> |
| Liabilities and Net Assets | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable | \$ 138,689 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 138,689 |
| Intercompany payable (receivable) | 91,994 | 71,516 | (78,303) | (100,000) | 14,793 | - | - |
| Accrued expenses | 208,924 | - | - | - | - | - | 208,924 |
| Capital lease obligations, current portion | 35,819 | - | - | - | - | - | 35,819 |
| Total current liabilities | 475,426 | 71,516 | (78,303) | (100,000) | 14,793 | - | 383,432 |
| Note payable | 500,000 | - | - | - | - | - | 500,000 |
| Capital lease obligations, noncurrent portion | 74,703 | - | - | - | - | - | 74,703 |
| Total liabilities | <u>1,050,129</u> | <u>71,516</u> | <u>(78,303)</u> | <u>(100,000)</u> | <u>14,793</u> | <u>-</u> | <u>958,135</u> |
| Net assets (deficit): | | | | | | | |
| Unrestricted | 1,319,746 | (71,516) | 78,303 | 100,000 | (14,793) | (91,994) | 1,319,746 |
| Temporarily restricted | - | - | - | - | - | - | - |
| Total net assets | <u>1,319,746</u> | <u>(71,516)</u> | <u>78,303</u> | <u>100,000</u> | <u>(14,793)</u> | <u>(91,994)</u> | <u>1,319,746</u> |
| Total liabilities and net assets | <u>\$ 2,369,875</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (91,994)</u> | <u>\$ 2,277,881</u> |

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2011

| | LEAD Public Schools, Inc. | LEAD Academy Nonprofit, LLC | Cameron College Prep Nonprofit, LLC | Eliminations | Consolidated |
|--|--------------------------------------|--|--|---------------------|---------------------|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 307,454 | \$ - | \$ - | \$ - | \$ 307,454 |
| Accounts receivable | 206,757 | - | - | - | 206,757 |
| Prepaid expenses and other | 6,569 | - | - | - | 6,569 |
| Total current assets | 520,780 | - | - | - | 520,780 |
| Investment in Academy | 355,427 | - | - | (355,427) | - |
| Investment in Cameron | (41,344) | - | - | 41,344 | - |
| Property and equipment, net | 289,536 | - | - | - | 289,536 |
| Total assets | <u>\$ 1,124,399</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (314,083)</u> | <u>\$ 810,316</u> |
| Liabilities and Net Assets | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 136,277 | \$ - | \$ - | \$ - | \$ 136,277 |
| Intercompany payable (receivable) | 314,083 | (355,427) | 41,344 | - | - |
| Accrued expenses | 114,563 | - | - | - | 114,563 |
| Capital lease obligations, current portion | 34,343 | - | - | - | 34,343 |
| Total current liabilities | 599,266 | (355,427) | 41,344 | - | 285,183 |
| Capital lease obligations, noncurrent portion | 109,395 | - | - | - | 109,395 |
| Total liabilities | <u>708,661</u> | <u>(355,427)</u> | <u>41,344</u> | <u>-</u> | <u>394,578</u> |
| Net assets (deficit): | | | | | |
| Unrestricted | 165,738 | 355,427 | (41,344) | (314,083) | 165,738 |
| Temporarily restricted | 250,000 | - | - | - | 250,000 |
| Total net assets | <u>415,738</u> | <u>355,427</u> | <u>(41,344)</u> | <u>(314,083)</u> | <u>415,738</u> |
| Total liabilities and net assets | <u>\$ 1,124,399</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (314,083)</u> | <u>\$ 810,316</u> |

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

| | LEAD Public Schools, Inc. | LEAD Academy, Nonprofit, LLC | Cameron College Prep, Nonprofit, LLC | Southeast College Prep, Nonprofit, LLC | Brick Church College Prep, Nonprofit, LLC | Eliminations | Consolidated |
|----------------------------------|--------------------------------------|---|---|---|--|---------------------|---------------------|
| Public support and revenue: | | | | | | | |
| District funding | \$ - | \$ 4,406,665 | \$ 1,284,429 | \$ - | \$ - | \$ - | \$ 5,691,094 |
| Contributions and other | 1,407,566 | 9,901 | 2,199 | - | - | - | 1,419,666 |
| Federal grants | <u>321,083</u> | <u>152,669</u> | <u>321,802</u> | <u>100,000</u> | <u>21,015</u> | <u>-</u> | <u>916,569</u> |
| Total public support and revenue | <u>1,728,649</u> | <u>4,569,235</u> | <u>1,608,430</u> | <u>100,000</u> | <u>21,015</u> | <u>-</u> | <u>8,027,329</u> |
| Expenses: | | | | | | | |
| Student instruction and services | 1,454,705 | 4,590,008 | 1,391,480 | - | 8,957 | (1,086,854) | 6,358,296 |
| Administration | 655,332 | 405,110 | 97,303 | - | 26,851 | (496,304) | 688,292 |
| Fundraising | <u>75,673</u> | <u>1,060</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>76,733</u> |
| Total expenses | <u>2,185,710</u> | <u>4,996,178</u> | <u>1,488,783</u> | <u>-</u> | <u>35,808</u> | <u>(1,583,158)</u> | <u>7,123,321</u> |
| Other income (expenses): | | | | | | | |
| Management fees | 1,583,158 | - | - | - | - | (1,583,158) | - |
| Loss in Academy | (426,943) | - | - | - | - | 426,943 | - |
| Earnings in Cameron | 119,647 | - | - | - | - | (119,647) | - |
| Earnings in Southeast | 100,000 | - | - | - | - | (100,000) | - |
| Loss in Brick Church | <u>(14,793)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,793</u> | <u>-</u> |
| Total other income (expenses) | <u>1,361,069</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,361,069)</u> | <u>-</u> |
| Change in net assets | 904,008 | (426,943) | 119,647 | 100,000 | (14,793) | 222,089 | 904,008 |
| Net assets at beginning of year | <u>415,738</u> | <u>355,427</u> | <u>(41,344)</u> | <u>-</u> | <u>-</u> | <u>(314,083)</u> | <u>415,738</u> |
| Net assets at end of year | <u>\$ 1,319,746</u> | <u>\$ (71,516)</u> | <u>\$ 78,303</u> | <u>\$ 100,000</u> | <u>\$ (14,793)</u> | <u>\$ (91,994)</u> | <u>\$ 1,319,746</u> |

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

| | LEAD Public Schools, Inc. | LEAD Academy, Nonprofit, LLC | Cameron College Prep, Nonprofit, LLC | Eliminations | Consolidated |
|-------------------------------------|--------------------------------------|---|---|---------------------|---------------------|
| Public support and revenue: | | | | | |
| District funding | \$ - | \$ 3,121,926 | \$ - | \$ - | \$ 3,121,926 |
| Contributions | 572,527 | - | - | - | 572,527 |
| Federal grants | <u>-</u> | <u>164,294</u> | <u>277,511</u> | <u>-</u> | <u>441,805</u> |
| Total public support and revenue | <u>572,527</u> | <u>3,286,220</u> | <u>277,511</u> | <u>-</u> | <u>4,136,258</u> |
| Expenses: | | | | | |
| Student instruction and services | 805,507 | 2,333,736 | 308,220 | - | 3,447,463 |
| Administration | 198,874 | 530,022 | 10,635 | - | 739,531 |
| Fundraising | <u>9,077</u> | <u>67,035</u> | <u>-</u> | <u>-</u> | <u>76,112</u> |
| Total expenses | <u>1,013,458</u> | <u>2,930,793</u> | <u>318,855</u> | <u>-</u> | <u>4,263,106</u> |
| Other income (expenses): | | | | | |
| Earnings in Academy | 355,427 | - | - | (355,427) | - |
| Loss in Cameron | <u>(41,344)</u> | <u>-</u> | <u>-</u> | <u>41,344</u> | <u>-</u> |
| Total other income (expenses) | <u>314,083</u> | <u>-</u> | <u>-</u> | <u>(314,083)</u> | <u>-</u> |
| Change in net assets | (126,848) | 355,427 | (41,344) | (314,083) | (126,848) |
| Net assets at beginning of year | <u>542,586</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>542,586</u> |
| Net assets at end of year | <u>\$ 415,738</u> | <u>\$ 355,427</u> | <u>\$ (41,344)</u> | <u>\$ (314,083)</u> | <u>\$ 415,738</u> |