

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

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of LEAD Public Schools, Inc. and Affiliates (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 18 – 21 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities, and it is not a required part of the consolidated financial statements. 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 consolidating 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 or to 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Frasier, Dan + Hand, PLLC

January 21, 2015

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,198,798	\$ 3,266,900
Accounts receivable	508,278	832,135
Prepaid expenses and other	98,165	81,528
	<u>4,805,241</u>	<u>4,180,563</u>
Total current assets		
	4,805,241	4,180,563
Property and equipment, net	2,719,292	542,154
Construction in progress	781,828	-
	<u>781,828</u>	<u>-</u>
Total assets	<u>\$ 8,306,361</u>	<u>\$ 4,722,717</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 672,853	\$ 220,713
Accrued expenses	648,302	348,420
Other liabilities	9,204	-
Notes payable, current portion	51,584	-
Capital lease obligations, current portion	39,349	37,607
	<u>39,349</u>	<u>37,607</u>
Total current liabilities		
	1,421,292	606,740
Notes payable, noncurrent portion	2,151,397	500,000
Capital lease obligations, noncurrent portion	-	38,223
	<u>-</u>	<u>38,223</u>
Total liabilities	<u>3,572,689</u>	<u>1,144,963</u>
Net assets:		
Unrestricted	4,733,672	3,577,754
	<u>4,733,672</u>	<u>3,577,754</u>
Total net assets	<u>4,733,672</u>	<u>3,577,754</u>
Total liabilities and net assets	<u>\$ 8,306,361</u>	<u>\$ 4,722,717</u>

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
District funding	\$11,794,725	\$ -	\$11,794,725
Federal grants	1,906,949	-	1,906,949
Contributions and other	1,580,211	-	1,580,211
Other grants	323,568	-	323,568
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>15,605,453</u>	<u>-</u>	<u>15,605,453</u>
Expenses:			
Student instruction and services	12,924,695	-	12,924,695
Administration	1,414,792	-	1,414,792
Fundraising	<u>140,602</u>	<u>-</u>	<u>140,602</u>
Total expenses	<u>14,480,089</u>	<u>-</u>	<u>14,480,089</u>
Other income:			
Rental income	<u>30,554</u>	<u>-</u>	<u>30,554</u>
Change in net assets	1,155,918	-	1,155,918
Net assets at beginning of year	<u>3,577,754</u>	<u>-</u>	<u>3,577,754</u>
Net assets at end of year	<u><u>\$ 4,733,672</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,733,672</u></u>

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
District funding	\$ 9,053,040	\$ -	\$ 9,053,040
Contributions and other	1,662,644	-	1,662,644
Federal grants	1,531,070	-	1,531,070
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>12,246,754</u>	<u>-</u>	<u>12,246,754</u>
Expenses:			
Student instruction and services	8,834,661	-	8,834,661
Administration	1,045,991	-	1,045,991
Fundraising	<u>108,094</u>	<u>-</u>	<u>108,094</u>
Total expenses	<u>9,988,746</u>	<u>-</u>	<u>9,988,746</u>
Change in net assets	2,258,008	-	2,258,008
Net assets at beginning of year	<u>1,319,746</u>	<u>-</u>	<u>1,319,746</u>
Net assets at end of year	<u><u>\$ 3,577,754</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,577,754</u></u>

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014

	Student Instruction and Services	Supporting Services		Total Expenses
		Administration	Fundraising	
Salaries, wages and benefits	\$ 9,565,162	\$ 781,015	\$ 132,783	\$ 10,478,960
Instructional	1,133,585	4,677	-	1,138,262
Occupancy cost	933,068	27,579	-	960,647
Professional and service fees	79,786	451,701	-	531,487
Transportation	411,281	-	-	411,281
Depreciation	285,379	26,147	-	311,526
Staff development	214,496	5,074	-	219,570
Office expense	162,912	15,808	-	178,720
Other expenses	80,786	73,620	-	154,406
Outreach	51,549	9,097	-	60,646
Organizational development	6,691	20,074	7,819	34,584
	<u>\$ 12,924,695</u>	<u>\$ 1,414,792</u>	<u>\$ 140,602</u>	<u>\$ 14,480,089</u>
Total expenses	<u>\$ 12,924,695</u>	<u>\$ 1,414,792</u>	<u>\$ 140,602</u>	<u>\$ 14,480,089</u>

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013

	Student Instruction and Services	Supporting Services		Total Expenses
		Administration	Fundraising	
Salaries, wages and benefits	\$ 6,679,937	\$ 601,712	\$ 101,678	\$ 7,383,327
Occupancy cost	1,053,658	6,648	-	1,060,306
Instructional	476,059	12,966	-	489,025
Professional and service fees	33,000	351,590	-	384,590
Transportation	213,279	-	-	213,279
Depreciation	121,019	7,621	-	128,640
Office expense	102,953	14,773	-	117,726
Other expenses	51,562	28,908	-	80,470
Staff development	61,174	10,607	-	71,781
Outreach	40,692	7,181	-	47,873
Organizational development	1,328	3,985	6,416	11,729
	<u>\$ 8,834,661</u>	<u>\$ 1,045,991</u>	<u>\$ 108,094</u>	<u>\$ 9,988,746</u>
Total expenses	<u>\$ 8,834,661</u>	<u>\$ 1,045,991</u>	<u>\$ 108,094</u>	<u>\$ 9,988,746</u>

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,155,918	\$ 2,258,008
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Receipt of donated stock	(217,957)	(224,075)
Gain on sale of donated stock	(2,041)	(6,666)
Loss on disposal of property and equipment	1,500	-
Depreciation	311,526	128,640
Changes in operating assets and liabilities:		
Accounts receivable	323,857	(627,188)
Prepaid expenses and other	(16,637)	32,436
Accounts payable	452,140	82,024
Accrued expenses	299,882	139,496
Other liabilities	9,204	-
Net cash provided by operating activities	<u>2,317,392</u>	<u>1,782,675</u>
Cash flows from investing activities:		
Proceeds from sale of investments	219,998	230,741
Purchase of property and equipment	<u>(3,271,992)</u>	<u>(371,504)</u>
Net cash used in investing activities	<u>(3,051,994)</u>	<u>(140,763)</u>
Cash flows from financing activities:		
Proceeds from notes payable	1,720,000	-
Payments on notes payable	(17,019)	-
Payments on capital lease obligations	<u>(36,481)</u>	<u>(34,692)</u>
Net cash provided by (used in) financing activities	<u>1,666,500</u>	<u>(34,692)</u>
Net increase in cash and cash equivalents	931,898	1,607,220
Cash and cash equivalents at beginning of year	<u>3,266,900</u>	<u>1,659,680</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,198,798</u></u>	<u><u>\$ 3,266,900</u></u>
Supplemental schedule of noncash investing and financing activities:		
Receipt of donated stock	<u><u>\$ 217,957</u></u>	<u><u>\$ 224,075</u></u>

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013

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 addition, LPS operates a real estate holding company, LEAD Real Estate Holdings, Nonprofit, LLC (“LEAD Real Estate”).

In accordance with the Academy’s, Cameron’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. Brick Church’s enrollment is currently restricted to students zoned to Brick Church Middle School. The Academy currently enrolls students in grades five through twelve. The Academy’s charter provides for a total enrollment of 800. Cameron began classes in August 2011 and currently enrolls students in grades five through seven. Brick Church began classes in August 2012 and currently enrolls students in grades five through six. Southeast began classes in August 2013 and currently enrolls students in grade five.

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, Southeast, and LEAD Real Estate (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 added a grade each year and had its first graduating class in 2014. 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 began classes in August 2012 with fifth grade and plans to add a grade each subsequent year through the twelfth 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 began classes in August 2013 with fifth grade and plans to add a grade each subsequent year through the twelfth grade.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

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. The Organization had no temporarily restricted net assets at June 30, 2014 and 2013.

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, 2014 and 2013.

Use of Estimates

The preparation of consolidated 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.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid investments with original maturities when purchased 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.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$18,236 and \$4,269 for the years ended June 30, 2014 and 2013, respectively.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2011 through June 30, 2014.

Subsequent Events

The Organization evaluated subsequent events through January 21, 2015, when these consolidated financial statements were available to be issued. 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, 2014 and 2013

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 542,960	\$ -
Buildings and improvements	1,522,351	-
Computer equipment	521,778	422,240
Furniture and fixtures	119,285	100,998
Office equipment	78,703	71,296
Textbooks	37,038	37,038
Leasehold improvements	274,468	40,730
School buses	<u>463,584</u>	<u>407,212</u>
	3,560,167	1,079,514
Less accumulated depreciation	<u>(840,875)</u>	<u>(537,360)</u>
	<u><u>\$ 2,719,292</u></u>	<u><u>\$ 542,154</u></u>

Depreciation expense totaled \$311,526 and \$128,640 for the years ended June 30, 2014 and 2013, respectively.

Construction in progress totaling \$781,828 at June 30, 2014 consisted of architectural fees and improvements made to the Organization's Metroplex property purchased during fiscal 2014.

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, 2014 and 2013 is \$173,762 with accumulated depreciation of \$136,114 and \$101,361, respectively. The lease expires in May 2015.

As of June 30, 2014, future minimum lease payments required are as follows:

Years Ending <u>June 30,</u> 2015	\$ <u>39,559</u>
Total minimum future payments	39,559
Less amount representing interest	<u>(210)</u>
	<u><u>\$ 39,349</u></u>

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

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, 2015 with the option to extend the lease for one year. 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, 2014 and 2013, respectively. Per the terms of the lease, future minimum lease payments required under the operating lease agreement are \$170,000 for the year ending June 30, 2015.

The Academy also entered into a lease arrangement with MNPS for certain educational facilities. The current lease terminates on June 30, 2018. The lease required monthly payments of \$20,585 for the year ended June 30, 2014 subject to annual increases of 2%. Additionally, the lease provides for a 50% rate reduction for tenant improvement expenditures made to the facility. Under the terms of the lease, the Academy paid rent expense of \$128,555 and \$247,025 for the years ended June 30, 2014 and 2013, respectively.

During July 2012, LPS entered into a lease arrangement to accommodate its central office. The lease term was for one year terminating on June 30, 2013 and required monthly rental payments of \$733. In May 2013, the lease was extended through June 30, 2014 with monthly rental payments of \$2,817. Under terms of the lease, LPS paid rent expense of \$35,272 and \$8,800 during the years ended June 30, 2014 and 2013, respectively.

During 2014, Cameron entered into a lease arrangement with MNPS for certain educational facilities starting July 1, 2014 and expires June 30, 2021. The lease will require monthly rent payments of \$31,417 subject to annual increases of 2%.

During June 2013, Southeast entered into a lease arrangement with MNPS for certain educational facilities. The lease expires June 30, 2014 and requires monthly payments of \$2,185. Under terms of the lease, Southeast paid rent expense of \$26,220 for the year ended June 30, 2014.

As of June 30, 2014, future minimum operating lease payments required are as follows:

Years Ending June 30,	
2015	\$ 798,973
2016	641,552
2017	654,383
2018	667,471
2019	408,085
Thereafter	<u>840,817</u>
	<u>\$ 4,011,281</u>

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 5 – NOTES 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.

During November 2013, the Organization entered into another loan agreement with CSGF Tennessee, LLC. Under terms of the loan, the Organization received \$100,000 to be used for general support and management of the Organization. The note bears interest at 1.00%. The entire principal amount plus any accrued and unpaid interest is due on June 30, 2019; however, under terms of the loan, the note may be forgiven provided the Organization meets certain milestones.

In February 2014, the Organization entered into a note payable with a financial institution for the purchase of certain real estate. The agreement is secured by a deed of trust and a negative pledge of the Organization's assets. Additionally, the agreement contains restrictive covenants. At June 30, 2014, the Organization was in compliance with these covenants. The note requires monthly principal and interest payments of \$10,305 and bears interest at 4.5%. The remaining principal and any accrued and unpaid interest is due on February 28, 2019. Amounts outstanding under this note totaled \$1,602,981 at June 30, 2014.

Future principal payments on the notes are as follows at June 30, 2014:

Years Ending <u>June 30,</u>	
2015	\$ 51,584
2016	53,796
2017	556,494
2018	59,126
2019	<u>1,481,981</u>
	<u>\$ 2,202,981</u>

NOTE 6 – LINE OF CREDIT

During July 2012, the Organization entered into a line of credit agreement with a financial institution to provide maximum borrowings of \$500,000. The line of credit required monthly interest payments calculated at the bank's prime rate and matured in July 2013. There were no outstanding amounts under this line of credit as of June 30, 2013.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 6 – LINE OF CREDIT (Continued)

During 2014, the Organization entered into a new line of credit agreement with a financial institution to provide maximum borrowings of \$1,000,000. The line of credit requires monthly interest payments calculated at the bank's prime rate not to fall below 4.5% and matures in February 2015. There were no outstanding amounts under this line of credit as of June 30, 2014.

NOTE 7 – FEDERAL GRANTS

The Organization receives federal passthrough funding from various grantor agencies to help meet objectives and accomplish its mission as a charter school. Total federal awards received during the years ended June 30, 2014 and 2013 totaled \$1,906,949 and \$1,531,070, respectively.

NOTE 8 – CONCENTRATIONS

For the years ended June 30, 2014 and 2013, the Organization received \$11,479,658 (73%) and \$8,784,246 (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 9 – 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.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 9 – RETIREMENT PLAN (Continued)

Plan Description (Continued)

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.tn.gov/treasury/tcrs/Schools.

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, 2014 was 8.88% 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, 2014 and 2013 were \$481,781 and \$314,355, respectively, equal to the required contributions for the year.

The Organization's noncertified employees are covered under a 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. Employer contributions to this plan totaled \$122,362 and \$59,584 for the years ended June 30, 2014 and 2013, respectively.

SUPPLEMENTAL INFORMATION

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2014

	LEAD Public Schools, Inc.	LEAD Academy, Nonprofit, LLC	Cameron College Prep, Nonprofit, LLC	Southeast College Prep, Nonprofit, LLC	Brick Church College Prep, Nonprofit, LLC	LEAD Real Estate Holdings, Nonprofit, LLC	Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	\$ 4,191,448	\$ -	\$ -	\$ -	\$ -	\$ 7,350	\$ -	\$ 4,198,798
Accounts receivable	508,278	-	-	-	-	-	-	508,278
Prepaid expenses and other	98,165	-	-	-	-	-	-	98,165
Total current assets	4,797,891	-	-	-	-	7,350	-	4,805,241
Investment in Academy	(497,315)	-	-	-	-	-	497,315	-
Investment in Cameron	2,118,273	-	-	-	-	-	(2,118,273)	-
Investment in Southeast	215,664	-	-	-	-	-	(215,664)	-
Investment in Brick Church	175,646	-	-	-	-	-	(175,646)	-
Investment in Real Estate	(51,816)	-	-	-	-	-	51,816	-
Property and equipment, net	681,403	-	-	-	-	2,037,889	-	2,719,292
Construction in progress	-	-	-	-	-	781,828	-	781,828
Total assets	<u>\$ 7,439,746</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,827,067</u>	<u>\$ (1,960,452)</u>	<u>\$ 8,306,361</u>
Liabilities and Net Assets								
Current liabilities:								
Accounts payable	\$ 672,853	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 672,853
Intercompany payable (receivable)	765,357	497,315	(2,118,273)	(215,664)	(175,646)	1,246,911	-	-
Accrued expenses	626,661	-	-	-	-	21,641	-	648,302
Other liabilities	1,854	-	-	-	-	7,350	-	9,204
Note payable, current portion	-	-	-	-	-	51,584	-	51,584
Capital lease obligations, current portion	39,349	-	-	-	-	-	-	39,349
Total current liabilities	2,106,074	497,315	(2,118,273)	(215,664)	(175,646)	1,327,486	-	1,421,292
Note payable	600,000	-	-	-	-	1,551,397	-	2,151,397
Total liabilities	<u>2,706,074</u>	<u>497,315</u>	<u>(2,118,273)</u>	<u>(215,664)</u>	<u>(175,646)</u>	<u>2,878,883</u>	<u>-</u>	<u>3,572,689</u>
Net assets (deficit):								
Unrestricted	4,733,672	(497,315)	2,118,273	215,664	175,646	(51,816)	(1,960,452)	4,733,672
Temporarily restricted	-	-	-	-	-	-	-	-
Total net assets	<u>4,733,672</u>	<u>(497,315)</u>	<u>2,118,273</u>	<u>215,664</u>	<u>175,646</u>	<u>(51,816)</u>	<u>(1,960,452)</u>	<u>4,733,672</u>
Total liabilities and net assets	<u>\$ 7,439,746</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,827,067</u>	<u>\$ (1,960,452)</u>	<u>\$ 8,306,361</u>

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2013

	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	\$ 3,266,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,266,900
Accounts receivable	832,135	-	-	-	-	-	832,135
Prepaid expenses and other	81,528	-	-	-	-	-	81,528
Total current assets	4,180,563	-	-	-	-	-	4,180,563
Investment in Academy	(196,589)	-	-	-	-	196,589	-
Investment in Cameron	1,027,153	-	-	-	-	(1,027,153)	-
Investment in Southeast	294,093	-	-	-	-	(294,093)	-
Investment in Brick Church	204,569	-	-	-	-	(204,569)	-
Property and equipment, net	542,154	-	-	-	-	-	542,154
Total assets	<u>\$ 6,051,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,329,226)</u>	<u>\$ 4,722,717</u>
Liabilities and Net Assets							
Current liabilities:							
Accounts payable	\$ 220,713	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 220,713
Intercompany payable (receivable)	1,329,226	196,589	(1,027,153)	(294,093)	(204,569)	-	-
Accrued expenses	348,420	-	-	-	-	-	348,420
Capital lease obligations, current portion	37,607	-	-	-	-	-	37,607
Total current liabilities	1,935,966	196,589	(1,027,153)	(294,093)	(204,569)	-	606,740
Note payable	500,000	-	-	-	-	-	500,000
Capital lease obligations, noncurrent portion	38,223	-	-	-	-	-	38,223
Total liabilities	<u>2,474,189</u>	<u>196,589</u>	<u>(1,027,153)</u>	<u>(294,093)</u>	<u>(204,569)</u>	<u>-</u>	<u>1,144,963</u>
Net assets (deficit):							
Unrestricted	3,577,754	(196,589)	1,027,153	294,093	204,569	(1,329,226)	3,577,754
Temporarily restricted	-	-	-	-	-	-	-
Total net assets	<u>3,577,754</u>	<u>(196,589)</u>	<u>1,027,153</u>	<u>294,093</u>	<u>204,569</u>	<u>(1,329,226)</u>	<u>3,577,754</u>
Total liabilities and net assets	<u>\$ 6,051,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,329,226)</u>	<u>\$ 4,722,717</u>

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	LEAD Public Schools, Inc.	LEAD Academy, Nonprofit, LLC	Cameron College Prep, Nonprofit, LLC	Southeast College Prep, Nonprofit, LLC	Brick Church College Prep, Nonprofit, LLC	LEAD Real Estate Holdings, Nonprofit, LLC	Eliminations	Consolidated
Public support and revenue:								
District funding	\$ -	\$ 5,379,114	\$ 4,295,675	\$ 507,965	\$ 1,611,971	\$ -	\$ -	\$11,794,725
Federal grants	412,959	316,886	235,874	307,209	634,021	-	-	1,906,949
Contributions and other	1,541,456	12,365	23,320	1,342	1,728	-	-	1,580,211
Other grants	<u>35,775</u>	<u>152,659</u>	<u>79,739</u>	<u>16,022</u>	<u>39,373</u>	<u>-</u>	<u>-</u>	<u>323,568</u>
Total public support and revenue	<u>1,990,190</u>	<u>5,861,024</u>	<u>4,634,608</u>	<u>832,538</u>	<u>2,287,093</u>	<u>-</u>	<u>-</u>	<u>15,605,453</u>
Expenses:								
Student instruction and services	1,600,152	5,699,206	3,157,776	852,051	2,162,364	14,050	(560,904)	12,924,695
Administration	1,312,724	462,544	385,712	58,916	153,652	68,320	(1,027,076)	1,414,792
Fundraising	<u>140,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,602</u>
Total expenses	<u>3,053,478</u>	<u>6,161,750</u>	<u>3,543,488</u>	<u>910,967</u>	<u>2,316,016</u>	<u>82,370</u>	<u>(1,587,980)</u>	<u>14,480,089</u>
Other income (expenses):								
Rental income	-	-	-	-	-	30,554	-	30,554
Management fees	1,587,980	-	-	-	-	-	(1,587,980)	-
Loss in Academy	(300,726)	-	-	-	-	-	300,726	-
Earnings in Cameron	1,091,120	-	-	-	-	-	(1,091,120)	-
Loss in Southeast	(78,429)	-	-	-	-	-	78,429	-
Loss in Brick Church	(28,923)	-	-	-	-	-	28,923	-
Loss in Real Estate	<u>(51,816)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,816</u>	<u>-</u>
Total other income (expenses)	<u>2,219,206</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,554</u>	<u>(2,219,206)</u>	<u>30,554</u>
Change in net assets	1,155,918	(300,726)	1,091,120	(78,429)	(28,923)	(51,816)	(631,226)	1,155,918
Net assets at beginning of year	<u>3,577,754</u>	<u>(196,589)</u>	<u>1,027,153</u>	<u>294,093</u>	<u>204,569</u>	<u>-</u>	<u>(1,329,226)</u>	<u>3,577,754</u>
Net assets at end of year	<u>\$ 4,733,672</u>	<u>\$ (497,315)</u>	<u>\$ 2,118,273</u>	<u>\$ 215,664</u>	<u>\$ 175,646</u>	<u>\$ (51,816)</u>	<u>\$ (1,960,452)</u>	<u>\$ 4,733,672</u>

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	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	\$ -	\$ 5,279,715	\$ 2,807,997	\$ -	\$ 965,328	\$ -	\$ 9,053,040
Contributions and other	1,633,822	16,585	10,583	-	1,654	-	1,662,644
Federal grants	<u>431,467</u>	<u>173,615</u>	<u>207,714</u>	<u>211,252</u>	<u>507,022</u>	<u>-</u>	<u>1,531,070</u>
Total public support and revenue	<u>2,065,289</u>	<u>5,469,915</u>	<u>3,026,294</u>	<u>211,252</u>	<u>1,474,004</u>	<u>-</u>	<u>12,246,754</u>
Expenses:							
Student instruction and services	1,071,387	5,112,544	1,820,268	17,159	1,167,057	(353,754)	8,834,661
Administration	1,009,368	482,444	257,176	-	87,585	(790,582)	1,045,991
Fundraising	<u>108,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,094</u>
Total expenses	<u>2,188,849</u>	<u>5,594,988</u>	<u>2,077,444</u>	<u>17,159</u>	<u>1,254,642</u>	<u>(1,144,336)</u>	<u>9,988,746</u>
Other income (expenses):							
Management fees	1,144,336	-	-	-	-	(1,144,336)	-
Loss in Academy	(125,073)	-	-	-	-	125,073	-
Earnings in Cameron	948,850	-	-	-	-	(948,850)	-
Earnings in Southeast	194,093	-	-	-	-	(194,093)	-
Earnings in Brick Church	<u>219,362</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(219,362)</u>	<u>-</u>
Total other income (expenses)	<u>2,381,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,381,568)</u>	<u>-</u>
Change in net assets	2,258,008	(125,073)	948,850	194,093	219,362	(1,237,232)	2,258,008
Net assets at beginning 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>
Net assets at end of year	<u>\$ 3,577,754</u>	<u>\$ (196,589)</u>	<u>\$ 1,027,153</u>	<u>\$ 294,093</u>	<u>\$ 204,569</u>	<u>\$ (1,329,226)</u>	<u>\$ 3,577,754</u>