

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

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, 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 19 – 22 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, Owen + Hand, PLLC

December 3, 2015

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|----------------------------|----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,588,364 | \$ 4,198,798 |
| Accounts receivable | 1,549,273 | 508,278 |
| Prepaid expenses and other | <u>119,149</u> | <u>98,165</u> |
| Total current assets | 5,256,786 | 4,805,241 |
| Property and equipment, net | 3,109,243 | 2,719,292 |
| Construction in progress | <u>1,075,752</u> | <u>781,828</u> |
| Total assets | <u><u>\$ 9,441,781</u></u> | <u><u>\$ 8,306,361</u></u> |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 419,886 | \$ 672,853 |
| Accrued expenses | 1,519,211 | 648,302 |
| Other liabilities | 7,350 | 9,204 |
| Notes payable, current portion | 109,468 | 51,584 |
| Capital lease obligations, current portion | <u>-</u> | <u>39,349</u> |
| Total current liabilities | 2,055,915 | 1,421,292 |
| Notes payable, noncurrent portion | 2,041,928 | 2,151,397 |
| Capital lease obligations, noncurrent portion | <u>-</u> | <u>-</u> |
| Total liabilities | <u>4,097,843</u> | <u>3,572,689</u> |
| Net assets: | | |
| Unrestricted | <u>5,343,938</u> | <u>4,733,672</u> |
| Total net assets | <u>5,343,938</u> | <u>4,733,672</u> |
| Total liabilities and net assets | <u><u>\$ 9,441,781</u></u> | <u><u>\$ 8,306,361</u></u> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|---------------------|
| Public support and revenue: | | | |
| District funding | \$15,369,762 | \$ - | \$15,369,762 |
| Contributions and other | 2,279,544 | - | 2,279,544 |
| Federal grants | 1,609,499 | - | 1,609,499 |
| Other grants | 104,152 | - | 104,152 |
| Net assets released from restrictions | <u>-</u> | <u>-</u> | <u>-</u> |
| Total public support and revenue | <u>19,362,957</u> | <u>-</u> | <u>19,362,957</u> |
| Expenses: | | | |
| Student instruction and services | 16,429,773 | - | 16,429,773 |
| Administration | 2,059,515 | - | 2,059,515 |
| Fundraising | <u>145,363</u> | <u>-</u> | <u>145,363</u> |
| Total expenses | <u>18,634,651</u> | <u>-</u> | <u>18,634,651</u> |
| Other income: | | | |
| Rental income | 85,968 | - | 85,968 |
| Loss on disposal of property and equipment | <u>(204,008)</u> | <u>-</u> | <u>(204,008)</u> |
| Total other income | <u>(118,040)</u> | <u>-</u> | <u>(118,040)</u> |
| Change in net assets | 610,266 | - | 610,266 |
| Net assets at beginning of year | <u>4,733,672</u> | <u>-</u> | <u>4,733,672</u> |
| Net assets at end of year | <u>\$ 5,343,938</u> | <u>\$ -</u> | <u>\$ 5,343,938</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>\$ 4,733,672</u> | <u>\$ -</u> | <u>\$ 4,733,672</u> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

| | Student Instruction and Services | Supporting Services | | Total Expenses |
|-------------------------------|---|----------------------------|--------------------|---------------------------|
| | | Administration | Fundraising | |
| Salaries, wages and benefits | \$ 11,350,150 | \$ 948,712 | \$ 131,236 | \$ 12,430,098 |
| Occupancy cost | 1,633,490 | 8,262 | - | 1,641,752 |
| Instructional | 1,128,904 | 10,582 | - | 1,139,486 |
| Transportation | 1,112,814 | - | - | 1,112,814 |
| Professional and service fees | 115,572 | 776,766 | - | 892,338 |
| Depreciation | 400,733 | 40,177 | - | 440,910 |
| Other expenses | 218,130 | 148,939 | - | 367,069 |
| Office expense | 221,868 | 48,194 | - | 270,062 |
| Staff development | 139,096 | 18,343 | - | 157,439 |
| Outreach | 94,742 | 16,719 | - | 111,461 |
| Organizational development | 14,274 | 42,821 | 14,127 | 71,222 |
| | <u>16,429,773</u> | <u>2,059,515</u> | <u>145,363</u> | <u>18,634,651</u> |
| Total expenses | <u>\$ 16,429,773</u> | <u>\$ 2,059,515</u> | <u>\$ 145,363</u> | <u>\$ 18,634,651</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> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 610,266 | \$ 1,155,918 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Receipt of donated stock | (218,768) | (217,957) |
| Gain on sale of donated stock | - | (2,041) |
| Loss on disposal of property and equipment | 204,008 | 1,500 |
| Depreciation | 440,910 | 311,526 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,040,995) | 323,857 |
| Prepaid expenses and other | (20,984) | (16,637) |
| Accounts payable | (252,967) | 452,140 |
| Accrued expenses | 870,909 | 299,882 |
| Other liabilities | (1,854) | 9,204 |
| Net cash provided by operating activities | <u>590,525</u> | <u>2,317,392</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 218,768 | 219,998 |
| Purchase of property and equipment | <u>(1,328,793)</u> | <u>(3,271,992)</u> |
| Net cash used in investing activities | <u>(1,110,025)</u> | <u>(3,051,994)</u> |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | - | 1,720,000 |
| Payments on notes payable | (51,585) | (17,019) |
| Payments on capital lease obligations | <u>(39,349)</u> | <u>(36,481)</u> |
| Net cash (used in) provided by financing activities | <u>(90,934)</u> | <u>1,666,500</u> |
| Net (decrease) increase in cash and cash equivalents | (610,434) | 931,898 |
| Cash and cash equivalents at beginning of year | <u>4,198,798</u> | <u>3,266,900</u> |
| Cash and cash equivalents at end of year | <u>\$ 3,588,364</u> | <u>\$ 4,198,798</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | <u>\$ 72,071</u> | <u>\$ 24,199</u> |
| Supplemental schedule of noncash investing and financing activities: | | |
| Receipt of donated stock | <u>\$ 218,768</u> | <u>\$ 217,957</u> |

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015 and 2014

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 in Tennessee are public schools operated under a charter contract with a local district, statewide district, or the state board of education and governed under a nonprofit board of directors separate from the district. Currently, LPS operates five 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”), LEAD Prep Southeast, Nonprofit, LLC (“Southeast”), and Neely’s Bend College Prep, Nonprofit, LLC (“Neely’s Bend”). 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 restricted to students who would have been zoned to Brick Church Middle School or other ASD Priority School. If space exists after planned enrollment of zoned students, other eligible students may enroll or be included in an enrollment lottery pursuant to T.C.A § 49-13-106. 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 eight. Brick Church began classes in August 2012 and currently enrolls students in grades five through seven. Southeast began classes in August 2013 and currently enrolls students in grades five and six. Neely’s Bend is currently in the planning phase and will begin classes with grade five beginning in August 2015.

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, Neely’s Bend, and LEAD Real Estate (collectively the “Organization”). The Academy, Cameron, Brick Church, Southeast, and Neely’s Bend 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

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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 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 began classes in August 2013 with fifth grade and plans to add a grade each subsequent year through the twelfth grade. Neely's Bend entered into a Charter School Agreement with the Tennessee Achievement School District on May 21, 2015, to operate a charter school in Nashville, Tennessee. Neely's Bend will begin classes in August 2015 with fifth grade and plans to add a grade each subsequent year through the eighth grade.

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, 2015 and 2014.

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, 2015 and 2014.

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.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Materials, Services and Assets (Continued)

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 \$17,644 and \$18,236 for the years ended June 30, 2015 and 2014, 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.

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.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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, 2012 through June 30, 2015.

Subsequent Events

The Organization evaluated subsequent events through December 3, 2015, when these consolidated financial statements were available to be issued. Except as discussed in Note 4 and Note 5, 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.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------|---------------------|---------------------|
| Land | \$ 542,960 | \$ 542,960 |
| Buildings and improvements | 2,375,657 | 1,522,351 |
| Computer equipment | 578,879 | 521,778 |
| Furniture and fixtures | 148,196 | 119,285 |
| Office equipment | 78,703 | 78,703 |
| Textbooks | 37,038 | 37,038 |
| Leasehold improvements | 105,792 | 274,468 |
| School buses | <u>426,284</u> | <u>463,584</u> |
| | 4,293,509 | 3,560,167 |
| Less accumulated depreciation | <u>(1,184,266)</u> | <u>(840,875)</u> |
| | <u>\$ 3,109,243</u> | <u>\$ 2,719,292</u> |

Depreciation expense totaled \$440,910 and \$311,526 for the years ended June 30, 2015 and 2014, respectively.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 2 – PROPERTY AND EQUIPMENT (Continued)

Construction in progress totaling \$1,075,752 and \$781,828 at June 30, 2015 and 2014, respectively, 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, 2015 and 2014 is \$173,762 with accumulated depreciation of \$173,762 and \$136,114, respectively. The lease expired in May 2015.

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, 2015 and 2014, 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, 2016.

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 beginning 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 \$124,151 and \$128,555 for the years ended June 30, 2015 and 2014, respectively. Effective July 10, 2015, this lease was terminated by the Organization in accordance with the lease terms.

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 during the year ended June 30, 2014. During 2015, the central office was moved the Organization's Metroplex property.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 4 – OPERATING LEASES (Continued)

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%. Under terms of the lease, Cameron paid rent expense of \$376,822 during the year ended June 30, 2015. Effective July 1, 2015, this lease was amended permitting the Academy to use a portion of Cameron’s leased space. The amendment requires monthly rental payments of \$25,957 from Cameron and \$10,347 from the Academy for the year ended June 30, 2016 subject to annual increases of 2%. The amendment also gives the Organization the right to terminate the lease subject to 60 days written notice.

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. During 2015, Southeast was moved to the Organization’s Metroplex property.

As of June 30, 2015, future minimum operating lease payments required are as follows:

| Years Ending <u>June 30,</u> | |
|---------------------------------|---------------------|
| 2016 | \$ 605,644 |
| 2017 | 458,523 |
| 2018 | 453,244 |
| 2019 | 462,309 |
| 2020 | 471,555 |
| Thereafter | <u>480,986</u> |
| | <u>\$ 2,932,261</u> |

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.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 5 – NOTES PAYABLE (Continued)

Subsequent to June 30, 2015, 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, 2021; however, under terms of the loan, the note may be forgiven provided the Organization meets certain milestones. Accordingly, future principal payments on the notes below have been updated to reflect this subsequent event.

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, 2015, 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 \$1,551,396 and \$1,602,981 at June 30, 2015 and 2014, respectively.

Subsequent to June 30, 2015, this note payable was restructured to a term loan with total borrowings of \$3,900,000 requiring monthly payments of \$23,753 including interest calculated at 4.00%. Total outstanding amounts plus accrued and unpaid interest are due on September 1, 2020. Accordingly, future principal payments on the notes below have been updated to reflect this subsequent event.

Future principal payments on the notes are as follows at June 30, 2015:

| Years Ending <u>June 30,</u> | |
|---------------------------------|---------------------|
| 2016 | \$ 109,468 |
| 2017 | 633,227 |
| 2018 | 138,732 |
| 2019 | 244,464 |
| 2020 | 150,064 |
| Thereafter | <u>3,337,170</u> |
| | <u>\$ 4,613,125</u> |

NOTE 6 – LINE OF CREDIT

The Organization maintains a 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 2016. There were no outstanding amounts under this line of credit as of June 30, 2015.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 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, 2015 and 2014 totaled \$1,609,499 and \$1,906,949, respectively.

NOTE 8 – CONCENTRATIONS

For the years ended June 30, 2015 and 2014, the Organization received \$15,048,361 (78%) and \$11,479,658 (73%), 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 PLANS

Tennessee Legacy Pension Plan of TCRS

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of the Organization are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 9 – RETIREMENT PLANS (Continued)

Tennessee Legacy Pension Plan of TCRS (Continued)

change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by the Organization for the year ended June 30, 2015 to the Teacher Legacy Pension Plan equaled 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Teacher Retirement Plan

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of State Department of Education are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan is closed to new membership. Teachers with membership in the TCRS after June 30, 2014 are provided with pensions through a legally separate plan referred to as the Teacher Retirement Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 9 – RETIREMENT PLANS (Continued)

Teacher Retirement Plan (Continued)

non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except for in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted.

Employer contributions for the year ended June 30, 2015 to the Teacher Retirement Plan were 4 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Members of the Teacher Retirement Plan are also included in a 401(k) component whereby employer contributions are made at 5 percent of covered payroll.

Employer contributions for both the Tennessee Legacy Teachers Plan of TCRS and the Teacher Retirement Plan totaled \$568,556 for the year ended June 30, 2015.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 9 – RETIREMENT PLANS (Continued)

Other Plan

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 \$110,649 and \$122,362 for the years ended June 30, 2015 and 2014, respectively.

SUPPLEMENTAL INFORMATION

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2015

| | LEAD Public Schools, Inc. | LEAD Academy, Nonprofit, LLC | Cameron College Prep, Nonprofit, LLC | Southeast College Prep, Nonprofit, LLC | Brick Church College Prep, Nonprofit, LLC | Neely's Bend College Prep, Nonprofit, LLC | LEAD Real Estate Holdings, Nonprofit, LLC | Eliminations | Consolidated |
|--------------------------------------|--------------------------------------|---|---|---|--|--|--|----------------------|---------------------|
| Assets | | | | | | | | | |
| Current assets: | | | | | | | | | |
| Cash and cash equivalents | \$ 3,581,014 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 7,350 | \$ - | \$ 3,588,364 |
| Accounts receivable | 1,549,273 | - | - | - | - | - | - | - | 1,549,273 |
| Prepaid expenses and other | 119,149 | - | - | - | - | - | - | - | 119,149 |
| Total current assets | 5,249,436 | - | - | - | - | - | 7,350 | - | 5,256,786 |
| Investment in Academy | (1,051,461) | - | - | - | - | - | - | 1,051,461 | - |
| Investment in Cameron | 2,465,806 | - | - | - | - | - | - | (2,465,806) | - |
| Investment in Southeast | 166,266 | - | - | - | - | - | - | (166,266) | - |
| Investment in Brick Church | 533,629 | - | - | - | - | - | - | (533,629) | - |
| Investment in Neely's Bend | (36,340) | - | - | - | - | - | - | 36,340 | - |
| Investment in Real Estate | (210,738) | - | - | - | - | - | - | 210,738 | - |
| Property and equipment, net | 347,421 | - | - | - | - | - | 2,761,822 | - | 3,109,243 |
| Construction in progress | - | - | - | - | - | - | 1,075,752 | - | 1,075,752 |
| Total assets | <u>\$ 7,464,019</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,844,924</u> | <u>\$(1,867,162)</u> | <u>\$ 9,441,781</u> |
| Liabilities and Net Assets | | | | | | | | | |
| Current liabilities: | | | | | | | | | |
| Accounts payable | \$ 419,886 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 419,886 |
| Intercompany payable (receivable) | (404,262) | 1,051,461 | (2,465,806) | (166,266) | (533,629) | 36,340 | 2,482,162 | - | - |
| Accrued expenses | 1,504,457 | - | - | - | - | - | 14,754 | - | 1,519,211 |
| Other liabilities | - | - | - | - | - | - | 7,350 | - | 7,350 |
| Note payable, current portion | - | - | - | - | - | - | 109,468 | - | 109,468 |
| Total current liabilities | 1,520,081 | 1,051,461 | (2,465,806) | (166,266) | (533,629) | 36,340 | 2,613,734 | - | 2,055,915 |
| Note payable | 600,000 | - | - | - | - | - | 1,441,928 | - | 2,041,928 |
| Total liabilities | <u>2,120,081</u> | <u>1,051,461</u> | <u>(2,465,806)</u> | <u>(166,266)</u> | <u>(533,629)</u> | <u>36,340</u> | <u>4,055,662</u> | <u>-</u> | <u>4,097,843</u> |
| Net assets (deficit): | | | | | | | | | |
| Unrestricted | 5,343,938 | (1,051,461) | 2,465,806 | 166,266 | 533,629 | (36,340) | (210,738) | (1,867,162) | 5,343,938 |
| Temporarily restricted | - | - | - | - | - | - | - | - | - |
| Total net assets | <u>5,343,938</u> | <u>(1,051,461)</u> | <u>2,465,806</u> | <u>166,266</u> | <u>533,629</u> | <u>(36,340)</u> | <u>(210,738)</u> | <u>(1,867,162)</u> | <u>5,343,938</u> |
| Total liabilities and net assets | <u>\$ 7,464,019</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,844,924</u> | <u>\$(1,867,162)</u> | <u>\$ 9,441,781</u> |

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 ACTIVITIES
For the Year Ended June 30, 2015

| | <u>LEAD Public Schools, Inc.</u> | <u>LEAD Academy, Nonprofit, LLC</u> | <u>Cameron College Prep, Nonprofit, LLC</u> | <u>Southeast College Prep, Nonprofit, LLC</u> | <u>Brick Church College Prep, Nonprofit, LLC</u> | <u>Neely's Bend College Prep, Nonprofit, LLC</u> | <u>LEAD Real Estate Holdings, Nonprofit, LLC</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|--------------------------------------|---|---|---|--|--|--|-----------------------|---------------------|
| Public support and revenue: | | | | | | | | | |
| District funding | \$ - | \$ 5,168,669 | \$ 5,453,711 | \$ 2,185,932 | \$ 2,561,450 | \$ - | \$ - | \$ - | \$ 15,369,762 |
| Contributions and other | 2,207,977 | 23,777 | 29,899 | 13,839 | 4,052 | - | - | - | 2,279,544 |
| Federal grants | 382,328 | 228,809 | 292,560 | 101,699 | 477,497 | 126,606 | - | - | 1,609,499 |
| Other grants | 12,959 | 28,083 | 28,989 | 9,965 | 24,156 | - | - | - | 104,152 |
| Total public support and revenue | <u>2,603,264</u> | <u>5,449,338</u> | <u>5,805,159</u> | <u>2,311,435</u> | <u>3,067,155</u> | <u>126,606</u> | <u>-</u> | <u>-</u> | <u>19,362,957</u> |
| Expenses: | | | | | | | | | |
| Student instruction and services | 1,880,283 | 5,532,570 | 4,910,389 | 2,140,854 | 2,459,571 | 136,195 | 124,230 | (754,319) | 16,429,773 |
| Administration | 1,751,372 | 470,914 | 547,237 | 219,979 | 249,601 | 26,751 | 120,660 | (1,326,999) | 2,059,515 |
| Fundraising | 145,363 | - | - | - | - | - | - | - | 145,363 |
| Total expenses | <u>3,777,018</u> | <u>6,003,484</u> | <u>5,457,626</u> | <u>2,360,833</u> | <u>2,709,172</u> | <u>162,946</u> | <u>244,890</u> | <u>(2,081,318)</u> | <u>18,634,651</u> |
| Other income (expenses): | | | | | | | | | |
| Rental income | - | - | - | - | - | - | 85,968 | - | 85,968 |
| Loss on disposal of property and equipment | (204,008) | - | - | - | - | - | - | - | (204,008) |
| Management fees | 2,081,318 | - | - | - | - | - | - | (2,081,318) | - |
| Loss in Academy | (554,146) | - | - | - | - | - | - | 554,146 | - |
| Earnings in Cameron | 347,533 | - | - | - | - | - | - | (347,533) | - |
| Loss in Southeast | (49,398) | - | - | - | - | - | - | 49,398 | - |
| Earnings in Brick Church | 357,983 | - | - | - | - | - | - | (357,983) | - |
| Loss in Neely's Bend | (36,340) | - | - | - | - | - | - | 36,340 | - |
| Loss in Real Estate | (158,922) | - | - | - | - | - | - | 158,922 | - |
| Total other income (expenses) | <u>1,784,020</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>85,968</u> | <u>(1,988,028)</u> | <u>(118,040)</u> |
| Change in net assets | 610,266 | (554,146) | 347,533 | (49,398) | 357,983 | (36,340) | (158,922) | 93,290 | 610,266 |
| Net assets at beginning 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>-</u> | <u>(51,816)</u> | <u>(1,960,452)</u> | <u>4,733,672</u> |
| Net assets at end of year | <u>\$ 5,343,938</u> | <u>\$ (1,051,461)</u> | <u>\$ 2,465,806</u> | <u>\$ 166,266</u> | <u>\$ 533,629</u> | <u>\$ (36,340)</u> | <u>\$ (210,738)</u> | <u>\$ (1,867,162)</u> | <u>\$ 5,343,938</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 | 35,775 | 152,659 | 79,739 | 16,022 | 39,373 | - | - | 323,568 |
| 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 | 140,602 | - | - | - | - | - | - | 140,602 |
| 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 | (51,816) | - | - | - | - | - | 51,816 | - |
| 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> |