LEAD PUBLIC SCHOOLS, INC.
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2017 and 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

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Report of Independent Auditor

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 statement of financial position as of June 30, June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 from 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, 2017, and the changes in their net assets and their cash flows for the year 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 20 – 25 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.

Prior Period Financial Statements

The consolidated financial statements as of June 30, 2016, were audited by other auditors whose report dated December 28, 2016 expressed an unmodified opinion on those statements.

Cherry Bekaert LLP

Nashville, Tennessee
December 22, 2017

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 3,217,511	$ 3,919,539
Investments	3,585	-
Accounts receivable	659,532	1,272,944
Prepaid expenses and other	248,254	43,155
Total current assets	4,128,882	5,235,638
Property and equipment, net	5,332,893	5,123,429
Construction in progress	2,727,700	50,665
Total assets	$ 12,189,475	$ 10,409,732
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 323,227	$ 401,029
Accrued expenses	1,119,042	538,803
Other liabilities	-	115,011
Notes payable, current portion	139,194	133,671
Total current liabilities	1,581,463	1,188,514
Notes payable, noncurrent portion	3,719,717	4,358,911
Total liabilities	5,301,180	5,547,425
Net assets:		
Unrestricted	6,888,295	4,862,307
Total net assets	6,888,295	4,862,307
Total liabilities and net assets	$ 12,189,475	$ 10,409,732

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Public support and revenue:			
District funding	$ 20,857,555	$ -	$ 20,857,555
Contributions and other	2,298,039	-	2,298,039
Federal grants	1,406,750	-	1,406,750
Net assets released from restrictions	-	-	-
Total public support and revenue	24,562,344	-	24,562,344
Expenses:			
Student instruction and services	20,186,365	-	20,186,365
Administration	2,147,977	-	2,147,977
Fundraising	214,897	-	214,897
Total expenses	22,549,239	-	22,549,239
Other income:			
Rental income	12,883	-	12,883
Total other income	12,883	-	12,883
Change in net assets	2,025,988	-	2,025,988
Net assets at beginning of year	4,862,307	-	4,862,307
Net assets at end of year	$ 6,888,295	$ -	$ 6,888,295

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Public support and revenue:			
District funding	$ 18,745,813	$ -	$ 18,745,813
Federal grants	1,707,211	-	1,707,211
Contributions and other	1,028,332	-	1,028,332
Other grants	181,251	-	181,251
Net assets released from restrictions	-	-	-
Total public support and revenue	21,662,607	-	21,662,607
Expenses:			
Student instruction and services	20,087,085	-	20,087,085
Administration	1,947,482	-	1,947,482
Fundraising	188,273	-	188,273
Total expenses	22,222,840	-	22,222,840
Other income:			
Rental income	84,076	-	84,076
Realized loss on sale of investments	(5,474)	-	(5,474)
Total other income	78,602	-	78,602
Change in net assets	(481,631)	-	(481,631)
Net assets at beginning of year	5,343,938	-	5,343,938
Net assets at end of year	$ 4,862,307	$ -	$ 4,862,307

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

		Supporting Services		
	Student Instruction and Services	Administration	Fundraising	Total Expenses
Salaries, wages and benefits	$ 13,505,928	$ 954,733	$ 154,769	$ 14,615,430
Transportation	2,021,997	43,765	2,717	2,068,479
Occupancy cost	1,826,149	58,327	-	1,884,476
Professional and service fees	533,723	815,849	-	1,349,572
Instructional	949,904	32,888	4,751	987,543
Other expenses	410,132	133,501	2,505	546,138
Depreciation	466,069	54,728	-	520,797
Office expense	324,542	32,894	1,895	359,331
Organizational development	70,747	10,350	48,260	129,357
Outreach	56,594	9,987	-	66,581
Staff development	20,580	955	-	21,535
Total expenses	$ 20,186,365	$ 2,147,977	$ 214,897	$ 22,549,239

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Student Instruction and Services	Supporting Services: Administration	Supporting Services: Fundraising	Total Expenses
Salaries, wages and benefits	$ 13,511,737	$ 842,029	$ 119,208	$ 14,472,974
Occupancy cost	2,247,120	29,912	-	2,277,032
Transportation	2,131,289	44,302	444	2,176,035
Professional and service fees	254,996	660,061	14,280	929,337
Instructional	747,729	5,767	6,601	760,097
Depreciation	439,536	50,706	-	490,242
Other expenses	224,463	245,409	1,820	471,692
Office expense	292,692	36,737	3,320	332,749
Organizational development	61,770	8,815	42,600	113,185
Outreach	87,224	15,392	-	102,616
Staff development	88,529	8,352	-	96,881
Total expenses	$ 20,087,085	$ 1,947,482	$ 188,273	$ 22,222,840

See accompanying notes.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 2,025,988	$ (481,631)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	520,797	490,242
Forgiveness of note payable	(500,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	613,412	276,329
Prepaid expenses and other	(205,099)	75,994
Accounts payable	(77,802)	(18,857)
Accrued expenses	158,540	(980,408)
Other liabilties	(115,011)	107,661
Net cash provided by (used in) operating activities	2,420,825	(530,670)
Cash flows from investing activities:		
Purchase of investments	(3,585)	-
Purchase of property and equipment	(2,985,597)	(1,479,341)
Net cash used in investing activities	(2,989,182)	(1,479,341)
Cash flows from financing activities:		
Proceeds from notes payable	-	2,457,401
Payments on notes payable	(133,671)	(116,215)
Net cash (used in) provided by financing activities	(133,671)	2,341,186
Net (decrease) increase in cash and cash equivalents	(702,028)	331,175
Cash and cash equivalents at beginning of year	3,919,539	3,588,364
Cash and cash equivalents at end of year	$ 3,217,511	$ 3,919,539
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activities:		
Accrued expenses for construction in progress	$ 421,699	$ -
Forgiveness of note payable	$ 500,000	$ -
Cash paid during the year for interest	$ 151,366	$ 142,697

See accompanying notes.

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").

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 Academy began classes in July 2007 with fifth and sixth grade classes. The Academy has since added a grade each year until it reached twelfth grade. Cameron entered into a Charter School Agreement with the Metropolitan Nashville Board of Education on October 1, 2010, to operate a charter school in Nashville, Tennessee. Cameron began classes in August 2011 with fifth grade and has since added a grade each 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 has since added a grade each 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 Madison, Tennessee. Neely's Bend began classes in August 2015 with fifth grade and plans to add a grade each subsequent year through the eighth grade.

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 and Neely's Bend enrollment is restricted to students who would have been zoned to Brick Church Middle School, Neely's Bend Middle School, respectively, 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 nine through twelve. The Academy's charter provides for a total enrollment of 800. Cameron currently enrolls students in grades five through eight. Brick Church currently enrolls students in grades five through eight. Southeast currently enrolls students in grades five through eight. Neely's Bend currently enrolls students in grades five and six.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2017 and 2016.

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, 2017 and 2016.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fundraising 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are expensed as incurred. Advertising expense totaled $3,071 and $10,992 for the years ended June 30, 2017 and 2016, 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 consolidated 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 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying consolidated financial statements.

Subsequent Events

The Organization evaluated subsequent events through December 22, 2017, 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.

NOTE 2 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

The Organization has adopted the fair value measurement topic of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There were no changes in the Organization's valuation techniques during 2016 or 2015. A description of the valuation methodologies used for assets measured at fair value is as follows:

Equity securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As of June 30, 2017, the Organization held all investments in Level 1 equity securities totaling $3,585. There were no investment balances as of June 30, 2016.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2017	2016
Land	$ 542,960	$ 542,960
Buildings and improvements	4,438,827	4,401,217
Computer equipment	1,153,616	799,575
Furniture and fixtures	233,271	181,165
Office equipment	103,920	103,920
Textbooks	37,038	37,038
Leasehold improvements	588,740	302,234
School buses	426,284	426,284
	7,524,656	6,794,393
Less accumulated depreciation	(2,191,763)	(1,670,964)
	$ 5,332,893	$ 5,123,429

Depreciation expense totaled $520,797 and $490,242 for the years ended June 30, 2017 and 2016, respectively.

Construction in progress totaling $2,727,700 and $50,665 at June 30, 2017 and 2016, respectively, consisted of architectural fees and improvements made to the Organization's Metroplex property purchased during fiscal 2014.

NOTE 4 – OPERATING LEASES

The facilities used to provide educational services of the Academy were provided under an operating lease arrangement with St. Vincent De Paul Catholic Church entered into in August 2009 that terminated July 31, 2015 with the option to extend the lease for one year. The Academy elected to exercise the option to extend the termination date to July 31, 2016. The lease required 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 year ended June 30, 2016. Effective June 15, 2016, this lease was terminated by the Academy in accordance with the lease terms. Upon termination, the Academy moved the grade levels at this location to Cameron.

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 requires monthly rent payments of $31,417 subject to annual increases of 2%. Effective July 1, 2015, this lease was amended permitting the Academy's ninth grade 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 subject to annual increases of 2%. The amendment also gives the Organization the right to terminate the lease subject to 60 days written notice. Under the terms of the lease, rent expense totaled $491,198 and $458,016 for the years ended June 30, 2017 and 2016, respectively.

NOTE 4 – OPERATING LEASES (Continued)

Effective July 1, 2017, the lease was amended permitting the Academy's tenth through twelfth grades to use a portion of Cameron's leased space. The amendment requires monthly rental payments of $21,982 from Cameron and $23,371 from the Academy.

As of June 30, 2017, future minimum operating lease payments required are as follows:

Years Ending June 30,	
2018	544,236
2019	555,121
2020	566,223
2021	577,548
	$ 2,243,128

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. As of December 22, 2016, the loan balance of $500,000 plus related accrued interest was forgiven.

During November 2013, the Organization entered into a second 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.

During July 2015, the Organization entered into a third 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.

NOTE 5 – NOTES PAYABLE (Continued)

In February 2014, the Organization entered into a note payable with a financial institution for the purchase of certain real estate. During September 2015, this note payable was restructured to a term loan with total borrowings of $3,900,000 requiring monthly payments of $24,753 including interest calculated at 4.00%. Total outstanding amounts plus accrued and unpaid interest are due on September 1, 2020. The agreement is secured by a deed of trust and a negative pledge of the Organization's assets. Amounts outstanding under this note totaled $3,658,911 and $3,792,582 at June 30, 2017 and 2016, respectively. Additionally, the agreement contains restrictive covenants that are tested twice per year, on June 30th and December 31st, on a rolling four quarter basis. At June 30, 2017, the Organization was in compliance with the other covenants.

Future principal payments on the notes are as follows at June 30, 2017:

Years Ending June 30,	
2018	$ 139,194
2019	244,945
2020	150,564
2021	3,324,208
	$ 3,858,911

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 April 2018. There were no outstanding amounts under this line of credit as of June 30, 2017 or 2016.

NOTE 7 – FEDERAL GRANTS

The Organization receives federal pass-through 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, 2017 and 2016 totaled $1,406,750 and $1,707,211 respectively.

NOTE 8 – CONCENTRATIONS

For the years ended June 30, 2017 and 2016, the Organization received $20,476,195 (78%) and $18,476,216 (76%), 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 five 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% 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%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than ½%. A 1% COLA is granted if the CPI change is between ½% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Legacy Pension Plan, benefit terms and conditions, including COLAs, 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.

NOTE 9 – RETIREMENT PLANS (Continued)

Tennessee Legacy Pension Plan of TCRS (Continued)

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% of salary. The (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. 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, 2017 to the Teacher Legacy Pension Plan were 9.04% 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 of TCRS

Plan description. Teachers with membership in the TCRS before July 1, 2014 of the Organization are provided with pensions through the Teacher Retirement Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan is 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 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 Retirement Plan are eligible to retire with an unreduced benefit at age 65 with five years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. 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 60 and vested or pursuant to the rule of 80. 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% and include projected service credits.

NOTE 9 – RETIREMENT PLANS (Continued)

Teacher Retirement Plan of TCRS (Continued)

A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic 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 CPI during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than ½%. A 1% COLA is granted if the CPI change is between ½% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLAs, 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 or by automatic cost controls set out in law. Teachers contribute 5% of salary. The 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%, except for in years when the maximum funded level, as established by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. 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, 2017 to the Teacher Retirement Plan were 4% 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% of covered payroll.

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 for all retirement plans totaled $794,098 and $708,912 for the years ended June 30, 2017 and 2016, respectively.

SUPPLEMENTAL INFORMATION

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2017

	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	$ 3,169,735	$ -	$ -	$ -	$ -	$ -	$ 47,776	$ -	$ 3,217,511
Investments	3,585	-	-	-	-	-	-	-	3,585
Accounts receivable	659,532	-	-	-	-	-	-	-	659,532
Prepaid expenses and other	248,254	-	-	-	-	-	-	-	248,254
Total current assets	4,081,106	-	-	-	-	-	47,776	-	4,128,882
Investment in Academy	(2,095,758)	-	-	-	-	-	-	2,095,758	-
Investment in Cameron	4,132,606	-	-	-	-	-	-	(4,132,606)	-
Investment in Southeast	968,045	-	-	-	-	-	-	(968,045)	-
Investment in Brick Church	232,962	-	-	-	-	-	-	(232,962)	-
Investment in Neely's Bend	787,607	-	-	-	-	-	-	(787,607)	-
Investment in LEAD Real Estate	(862,198)	-	-	-	-	-	-	862,198	-
Property and equipment, net	1,024,166	-	-	-	-	-	4,308,727	-	5,332,893
Construction in progress	-	-	-	-	-	-	2,727,700	-	2,727,700
Total assets	$ 8,268,536	$ -	$ -	$ -	$ -	$ -	$ 7,084,203	$ (3,163,264)	$ 12,189,475

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Continued)
June 30, 2017

	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
Liabilities and Net Assets									
Current liabilities:									
Accounts payable	$ 323,227	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 323,227
Intercompany payable (receivable)	(247,274)	2,095,758	(4,132,606)	(968,045)	(232,962)	(787,607)	4,272,736	-	-
Accrued expenses	1,104,288	-	-	-	-	-	14,754	-	1,119,042
Note payable, current portion	-	-	-	-	-	-	139,194	-	139,194
Total current liabilities	1,180,241	2,095,758	(4,132,606)	(968,045)	(232,962)	(787,607)	4,426,684	-	1,581,463
Note payable	200,000	-	-	-	-	-	3,519,717	-	3,719,717
Total liabilities	1,380,241	2,095,758	(4,132,606)	(968,045)	(232,962)	(787,607)	7,946,401	-	5,301,180
Net assets (deficit):									
Unrestricted	6,888,295	(2,095,758)	4,132,606	968,045	232,962	787,607	(862,198)	(3,163,264)	6,888,295
Temporarily restricted	-	-	-	-	-	-	-	-	-
Total net assets	6,888,295	(2,095,758)	4,132,606	968,045	232,962	787,607	(862,198)	(3,163,264)	6,888,295
Total liabilities and net assets	$ 8,268,536	$ -	$ -	$ -	$ -	$ -	$ 7,084,203	$ (3,163,264)	$ 12,189,475

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2016

	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	$ 3,886,676	$ -	$ -	$ -	$ -	$ -	$ 32,863	$ -	$ 3,919,539
Accounts receivable	1,256,114	-	-	-	-	-	16,830	-	1,272,944
Prepaid expenses and other	43,155	-	-	-	-	-	-	-	43,155
Total current assets	5,185,945	-	-	-	-	-	49,693	-	5,235,638
Investment in Academy	(2,064,154)	-	-	-	-	-	-	2,064,154	-
Investment in Cameron	3,078,034	-	-	-	-	-	-	(3,078,034)	-
Investment in Southeast	486,478	-	-	-	-	-	-	(486,478)	-
Investment in Brick Church	273,100	-	-	-	-	-	-	(273,100)	-
Investment in Neely's Bend	397,253	-	-	-	-	-	-	(397,253)	-
Investment in LEAD Real Estate	(553,718)	-	-	-	-	-	-	553,718	-
Property and equipment, net	577,106	-	-	-	-	-	4,546,323	-	5,123,429
Construction in progress	-	-	-	-	-	-	50,665	-	50,665
Total assets	$ 7,380,044	$ -	$ -	$ -	$ -	$ -	$ 4,646,681	$ (1,616,993)	$ 10,409,732

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (Continued)
June 30, 2016

	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
Liabilities and Net Assets									
Current liabilities:									
Accounts payable	$ 401,029	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 401,029
Intercompany payable (receivable)	814,506	2,064,154	(3,078,034)	(486,478)	(273,100)	(397,253)	1,356,205	-	-
Accrued expenses	494,541	-	-	-	-	-	44,262	-	538,803
Other liabilities	107,661	-	-	-	-	-	7,350	-	115,011
Note payable, current portion	-	-	-	-	-	-	133,671	-	133,671
Total current liabilities	1,817,737	2,064,154	(3,078,034)	(486,478)	(273,100)	(397,253)	1,541,488	-	1,188,514
Note payable	700,000	-	-	-	-	-	3,658,911	-	4,358,911
Total liabilities	2,517,737	2,064,154	(3,078,034)	(486,478)	(273,100)	(397,253)	5,200,399	-	5,547,425
Net assets (deficit):									
Unrestricted	4,862,307	(2,064,154)	3,078,034	486,478	273,100	397,253	(553,718)	(1,616,993)	4,862,307
Temporarily restricted	-	-	-	-	-	-	-	-	-
Total net assets	4,862,307	(2,064,154)	3,078,034	486,478	273,100	397,253	(553,718)	(1,616,993)	4,862,307
Total liabilities and net assets	$ 7,380,044	$ -	$ -	$ -	$ -	$ -	$ 4,646,681	$ (1,616,993)	$ 10,409,732

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	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
Public support and revenue:									
District funding	$ -	$ 3,416,834	$ 6,716,788	$ 4,952,006	$ 3,271,548	$ 2,500,379	$ -	$ -	$ 20,857,555
Contributions and other	2,210,357	7,933	41,189	19,089	13,283	6,188	-	-	2,298,039
Federal grants	-	163,439	295,357	209,459	191,002	547,493	-	-	1,406,750
Total public support and revenue	2,210,357	3,588,206	7,053,334	5,180,554	3,475,833	3,054,060	-	-	24,562,344
Expenses:									
Student instruction and services	1,371,690	3,290,051	5,372,571	4,243,121	3,207,562	2,433,884	684,286	(416,800)	20,186,365
Administration	1,952,826	329,759	626,191	455,866	308,409	229,822	53,877	(1,808,773)	2,147,977
Fundraising	214,897	-	-	-	-	-	-	-	214,897
Total expenses	3,539,413	3,619,810	5,998,762	4,698,987	3,515,971	2,663,706	738,163	(2,225,573)	22,549,239
Other income (expenses):									
Rental income	-	-	-	-	-	-	429,683	(416,800)	12,883
Management fees	1,808,773	-	-	-	-	-	-	(1,808,773)	-
Loss in Academy	(31,604)	-	-	-	-	-	-	31,604	-
Earnings in Cameron	1,054,572	-	-	-	-	-	-	(1,054,572)	-
Earnings in Southeast	481,567	-	-	-	-	-	-	(481,567)	-
Loss in Brick Church	(40,138)	-	-	-	-	-	-	40,138	-
Earnings in Neely's Bend	390,354	-	-	-	-	-	-	(390,354)	-
Loss in LEAD Real Estate	(308,480)	-	-	-	-	-	-	308,480	-
Total other income (expenses)	3,355,044	-	-	-	-	-	429,683	(3,771,844)	12,883
Change in net assets	2,025,988	(31,604)	1,054,572	481,567	(40,138)	390,354	(308,480)	(1,546,271)	2,025,988
Net assets at beginning of year	4,862,307	(2,064,154)	3,078,034	486,478	273,100	397,253	(553,718)	(1,616,993)	4,862,307
Net assets at end of year	$ 6,888,295	$ (2,095,758)	$ 4,132,606	$ 968,045	$ 232,962	$ 787,607	$ (862,198)	$ (3,163,264)	$ 6,888,295

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	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
Public support and revenue:									
District funding	$ -	$ 4,507,424	$ 5,826,141	$ 3,772,213	$ 3,376,754	$ 1,263,281	$ -	$ -	$ 18,745,813
Contributions and other	933,951	23,961	34,859	12,300	16,257	7,004	-	-	1,028,332
Federal grants	161,980	219,391	278,907	147,616	168,027	731,290	-	-	1,707,211
Other grants	147,265	9,397	9,554	5,638	6,390	3,007	-	-	181,251
Total public support and revenue	1,243,196	4,760,173	6,149,461	3,937,767	3,567,428	2,004,582	-	-	21,662,607
Expenses:									
Student instruction and services	2,370,408	5,368,223	4,952,822	3,236,710	3,466,106	1,429,659	215,734	(952,577)	20,087,085
Administration	1,433,850	404,643	584,411	380,845	361,851	141,330	211,322	(1,570,770)	1,947,482
Fundraising	188,273	-	-	-	-	-	-	-	188,273
Total expenses	3,992,531	5,772,866	5,537,233	3,617,555	3,827,957	1,570,989	427,056	(2,523,347)	22,222,840
Other income (expenses):									
Rental income	-	-	-	-	-	-	84,076	-	84,076
Realized loss on sale of investments	(5,474)	-	-	-	-	-	-	-	(5,474)
Management fees	2,523,347	-	-	-	-	-	-	(2,523,347)	-
Loss in Academy	(1,012,693)	-	-	-	-	-	-	1,012,693	-
Earnings in Cameron	612,228	-	-	-	-	-	-	(612,228)	-
Earnings in Southeast	320,212	-	-	-	-	-	-	(320,212)	-
Loss in Brick Church	(260,529)	-	-	-	-	-	-	260,529	-
Earnings in Neely's Bend	433,593	-	-	-	-	-	-	(433,593)	-
Loss in LEAD Real Estate	(342,980)	-	-	-	-	-	-	342,980	-
Total other income (expenses)	2,267,704	-	-	-	-	-	84,076	(2,273,178)	78,602
Change in net assets	(481,631)	(1,012,693)	612,228	320,212	(260,529)	433,593	(342,980)	250,169	(481,631)
Net assets at beginning of year	5,343,938	(1,051,461)	2,465,806	166,266	533,629	(36,340)	(210,738)	(1,867,162)	5,343,938
Net assets at end of year	$ 4,862,307	$ (2,064,154)	$ 3,078,034	$ 486,478	$ 273,100	$ 397,253	$ (553,718)	$ (1,616,993)	$ 4,862,307