

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

As of and for the Years Ended June 30, 2020 and 2019

And Report of Independent Auditor

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

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Report of Independent Auditor

To the Board of Directors
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, 2020 and 2019, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2020 and 2019, 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.

Emphasis of Matter

As more fully described in Note 10 to the consolidated financial statements, LEAD Public Schools, Inc. and Affiliates has been impacted by the outbreak of the novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2020, on our consideration of LEAD Public Schools, Inc. and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LEAD Public Schools, Inc. and Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LEAD Public Schools, Inc. and Affiliate's internal control over financial reporting and compliance.

Cheryl Behant LLP

Nashville, Tennessee
December 29, 2020

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,887,232	\$ 5,377,123
Accounts receivable	1,476,659	1,537,316
Prepaid expenses and other	45,698	460,062
Total Current Assets	6,409,589	7,374,501
Property and equipment, net	8,205,621	7,578,171
Construction in progress	-	330,000
Total Assets	\$ 14,615,210	\$ 15,282,672
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 446,081	\$ 362,035
Accrued expenses	877,063	1,674,869
Other current liabilities	-	127,304
Notes payable, current portion	158,002	150,693
Total Current Liabilities	1,481,146	2,314,901
Notes payable, noncurrent portion	5,537,960	5,707,885
Total Liabilities	7,019,106	8,022,786
Net Assets:		
Without donor restriction	7,596,104	6,859,886
With donor restriction	-	400,000
Total Net Assets	7,596,104	7,259,886
Total Liabilities and Net Assets	\$ 14,615,210	\$ 15,282,672

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
Public Support and Revenue:			
District funding	\$ 29,788,783	\$ -	\$ 29,788,783
Federal grants	2,886,114	-	2,886,114
Contributions and other	1,101,824	-	1,101,824
Net assets released from restrictions	400,000	(400,000)	-
Total Public Support and Revenue	<u>34,176,721</u>	<u>(400,000)</u>	<u>33,776,721</u>
Expenses:			
Student instruction and services	29,872,795	-	29,872,795
Administration	3,305,392	-	3,305,392
Fundraising	262,316	-	262,316
Total Expenses	<u>33,440,503</u>	<u>-</u>	<u>33,440,503</u>
Change in net assets	736,218	(400,000)	336,218
Net assets, beginning of year	<u>6,859,886</u>	<u>400,000</u>	<u>7,259,886</u>
Net assets, end of year	<u>\$ 7,596,104</u>	<u>\$ -</u>	<u>\$ 7,596,104</u>

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
Public Support and Revenue:			
District funding	\$ 27,216,687	\$ -	\$ 27,216,687
Federal grants	2,990,447	-	2,990,447
Contributions and other	1,062,921	400,000	1,462,921
Net assets released from restrictions	-	-	-
Total Public Support and Revenue	<u>31,270,055</u>	<u>400,000</u>	<u>31,670,055</u>
Expenses:			
Student instruction and services	27,901,797	-	27,901,797
Administration	2,811,576	-	2,811,576
Fundraising	192,472	-	192,472
Total Expenses	<u>30,905,845</u>	<u>-</u>	<u>30,905,845</u>
Change in net assets	364,210	400,000	764,210
Net assets, beginning of year	<u>6,495,676</u>	<u>-</u>	<u>6,495,676</u>
Net assets, end of year	<u>\$ 6,859,886</u>	<u>\$ 400,000</u>	<u>\$ 7,259,886</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Student Instruction and Services	Supporting Services		Total Expenses
		Administration	Fundraising	
Salaries, wages, and benefits	\$ 21,017,494	\$ 1,349,409	\$ 186,276	\$ 22,553,179
Occupancy	2,379,600	84,391	-	2,463,991
Professional and service fees	1,321,907	929,814	37,021	2,288,742
Transportation	2,012,224	9,868	322	2,022,414
Depreciation	1,175,302	139,330	-	1,314,632
Instructional	566,467	191,665	3,621	761,753
Office supplies and equipment	649,235	91,270	448	740,953
Organizational development	223,483	167,939	27,113	418,535
Authorizer fees	-	320,184	-	320,184
Interest cost	251,796	-	-	251,796
Athletic cost	220,667	-	-	220,667
Outreach	34,570	6,101	-	40,671
Miscellaneous	20,050	15,421	-	35,471
Staff development	-	-	7,515	7,515
Total Expenses	\$ 29,872,795	\$ 3,305,392	\$ 262,316	\$ 33,440,503

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Student Instruction and Services	Supporting Services		Total Expenses
		Administration	Fundraising	
Salaries, wages, and benefits	\$ 18,179,598	\$ 1,291,171	\$ 117,232	\$ 19,588,001
Transportation	2,698,364	12,441	51	2,710,856
Occupancy	2,574,475	79,667	-	2,654,142
Professional and service fees	1,044,770	578,277	18,040	1,641,087
Depreciation	1,005,652	120,507	-	1,126,159
Instructional	789,408	156,974	2,228	948,610
Office expense	695,301	24,341	560	720,202
Organizational development	173,073	148,708	8,114	329,895
Authorizer fees	-	320,247	-	320,247
Athletics	281,650	-	-	281,650
Interest	255,193	-	-	255,193
Other expenses	158,897	71,228	991	231,116
Outreach	45,416	8,015	-	53,431
Development expense	-	-	45,256	45,256
Total Expenses	\$ 27,901,797	\$ 2,811,576	\$ 192,472	\$ 30,905,845

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets	\$ 336,218	\$ 764,210
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,314,632	1,126,159
Changes in operating assets and liabilities:		
Accounts receivable	60,657	591,840
Prepaid expenses and other	414,364	(166,846)
Accounts payable	84,046	162,055
Accrued expenses	(797,806)	621,051
Other liabilities	(127,304)	127,304
Net cash flows from operating activities	<u>1,284,807</u>	<u>3,225,773</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(1,612,082)</u>	<u>(964,674)</u>
Net cash flows from investing activities	<u>(1,612,082)</u>	<u>(964,674)</u>
Cash flows from financing activities:		
Proceeds from notes payable	-	38,480
Payments on notes payable	<u>(162,616)</u>	<u>(371,563)</u>
Net cash flows from financing activities	<u>(162,616)</u>	<u>(333,083)</u>
Net change in cash and cash equivalents	(489,891)	1,928,016
Cash and cash equivalents, beginning of year	<u>5,377,123</u>	<u>3,449,107</u>
Cash and cash equivalents, end of year	<u>\$ 4,887,232</u>	<u>\$ 5,377,123</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 251,796</u>	<u>\$ 255,193</u>

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 1—Nature of operations and 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 (“ASD”) 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 has since added a grade each year through the eighth grade.

In accordance with the charter agreements of the Academy, Cameron, and Southeast, 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. Section 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 eleven. Neely’s Bend currently enrolls students in grades five through eight.

Basis of Presentation – The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). 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”).

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 1—Nature of operations and summary of significant accounting policies (continued)

The Organization presents its consolidated financial statements in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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:

Net Assets Without Donor Restriction – Net assets that are not subject to donor-imposed stipulations. All contributions are considered available for general use unless specifically restricted by the donor.

Net Assets With Donor Restriction – 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, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restriction. If a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as increases to net assets without donor restriction. Additionally, some net assets are subject to a donor-imposed stipulation that they be held in perpetuity by the Organization. There were no net assets that were required to be held in perpetuity at June 30, 2020 and 2019.

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

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

Accounts Receivable – Accounts receivable represent amounts due from grants or other sources which have been approved but not received. Management considers all accounts collectible and, therefore, an allowance for doubtful accounts has not been recognized in the consolidated financial statements.

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 services, 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, and are recorded at their fair values in the period received.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 1—Nature of operations and summary of significant accounting policies (continued)

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as net assets without donor restriction 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 net assets with donor restriction. 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 net assets with donor restriction to net assets without donor restriction at that time.

Contributions – In accordance with FASB ASC guidelines, contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases to net assets with donor restrictions. When a restriction is fulfilled, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified to net assets without donor restrictions and are reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as increases to net assets without donor restrictions.

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.

Functional Allocation of Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. While most costs have been directly assigned to a functional category, certain joint costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses that are allocated consist primarily of salaries and wages which are allocated based on time and effort.

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.

Adoption of New Accounting Pronouncement – In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The Organization adopted ASU 2018-08 during 2020. The adoption of this standard did not have a significant impact on the Organization's consolidated financial statements.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 1—Nature of operations and summary of significant accounting policies (continued)

Accounting Policies for Future Pronouncements – In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the year ending June 30, 2021. The Organization is currently evaluating the effect of the implementation of this new standard.

In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the year ending June 30, 2023. The Organization is currently evaluating the effect of the implementation of this new standard.

Subsequent Events – The Organization evaluated subsequent events through December 29, 2020, when these consolidated financial statements were available to be issued.

Note 2—Liquidity and availability of resources

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program service activities as well as the conduct of services undertaken to support those activities to be general expenditures. The Organization maintains a line of credit with maximum borrowings of \$1,000,000 (see Note 6) with a financial institution that is drawn upon during the year to manage cash flow, if needed. Financial assets available for general expenditure, that is, without donor restriction or other restrictions limiting their use within one year of the statement of financial position comprise the following at June 30:

	<u>2020</u>	<u>2019</u>
Financial assets at June 30:		
Cash and cash equivalents	\$ 4,887,232	\$ 5,377,123
Accounts receivable	1,476,659	1,537,316
Total financial assets	6,363,891	6,914,439
Less amounts not available to be used for general expenditures within one year	-	(400,000)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,363,891</u>	<u>\$ 6,514,439</u>

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 3—Property and equipment

Property and equipment consists of the following at June 30:

	2020	2019
Land	\$ 542,960	\$ 542,960
Buildings and improvements	8,159,459	7,319,420
Computer equipment	2,687,904	1,915,783
Furniture and fixtures	421,224	398,150
Office equipment	138,962	140,283
Textbooks	166,177	166,177
Leasehold improvements	1,357,296	1,049,127
School buses	426,284	426,284
	<u>13,900,266</u>	<u>11,958,184</u>
Less accumulated depreciation	<u>(5,694,645)</u>	<u>(4,380,013)</u>
	<u>\$ 8,205,621</u>	<u>\$ 7,578,171</u>

Depreciation expense totaled \$1,314,632 and \$1,126,159 for the years ended June 30, 2020 and 2019, respectively.

Construction in progress totaling \$330,000 at June 30 2019 consisted of buildout costs incurred for a new physical education facility at the Organization's Metroplex property. The buildout was placed in service during the year ended June 30, 2020.

Note 4—Operating leases

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 required monthly rental payments of \$25,957 from Cameron and \$10,347 from the Academy subject to annual increases of 2%. The amendment also gave the Organization the right to terminate the lease subject to 60 days written notice. 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 subject to annual increases of 2%. Effective July 1, 2018, the lease was amended reducing the monthly rental payment to \$21,468 subject to annual increases of 2%. Under the terms of the lease, rent expense totaled \$262,768 and \$257,616 for the years ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, future minimum operating lease payments required are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 268,022

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 5—Notes payable

During November 2013, the Organization entered into a 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%. Amounts outstanding under the agreement totaled \$100,000 at June 30, 2018. The loan was paid in full during the year ended June 30, 2019.

During July 2015, 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%. Amounts outstanding under the agreement totaled \$100,000 at June 30, 2018. The loan was paid in full during the year ended June 30, 2019.

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%. During July 2017, this term loan was amended to allow additional borrowings of \$2,460,000 and requiring new monthly payments of \$33,363 including interest calculated at 4.25%. Total outstanding amounts plus accrued and unpaid interest are due on July 27, 2022. The agreement is secured by a deed of trust and a negative pledge of the Organization's assets. Amounts outstanding under this note totaled \$5,695,962 and \$5,858,578 at June 30, 2020 and 2019, respectively. Additionally, the agreement contains restrictive covenants that are tested annually on June 30. At June 30, 2020, management believes the Organization was in compliance with the other covenants.

Future principal payments on the notes are as follows at June 30, 2020:

Years Ending June 30,

2021	\$ 158,002
2022	164,947
2023	5,373,013
	<u>\$ 5,695,962</u>

Note 6—Line of credit

The Organization's line of credit has a \$1,000,000 maximum availability and requires interest-only payments in monthly installments at the bank's prime rate with minimum rate of 4.5% until maturity in April 2021 at which time all outstanding principal and interest will be due. There was no balance outstanding on the line of credit as of June 30, 2020 and 2019.

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 2020 and 2019 totaled \$2,886,114 and \$2,990,447, respectively.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 8—Concentrations

For the years ended June 30, 2020 and 2019, the Organization received \$29,190,456 (86%) and \$26,966,899 (85%), 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 enrollment.

Note 9—Retirement plans

Teacher Legacy Pension Plan of TCRS

Plan Description – The Tennessee Consolidated Retirement System ("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 <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>. Teachers employed by the Organization with membership in the TCRS before July 1, 2014 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 ("LEA") after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan.

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 if 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 ("COLA") 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.

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, 2020, to the Teacher Legacy Pension Plan were \$213,306 which is 9.60% 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.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

Note 9—Retirement plans (continued)

Teacher Retirement Plan of TCRS

Plan Description – 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 <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>. Teachers employed by the Organization with memberships in TCRS before July 1, 2014 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 LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan.

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. 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, 2020, to the Teacher Retirement Plan were \$225,287 which is 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.

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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 for all retirement plans totaled \$1,116,608 and \$986,769 for the years ended June 30, 2020 and 2019, respectively.

Note 10—Commitments and contingencies

During 2020, an outbreak of a novel strain on coronavirus ("COVID-19") emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen that could negatively impact the Organization's revenue and operations for an indeterminable time period. Other financial impacts could occur that are unknown at this time.