LEAD PUBLIC SCHOOLS, INC.
AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2022 and 2021

And Report of Independent Auditor

Cherry Bekaert LLP
Your Guide Forward

LEAD PUBLIC SCHOOLS, INC. AND AFFILIATES
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Cherry Bekaert LLP
Your Guide Forward

Report of Independent Auditor

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

Report on the Consolidated Financial Statements

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of LEAD Public Schools, Inc. and Affiliates and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Organization changed its method of accounting for leases as of July 1, 2021, due to the adoption of the Accounting Standards Update 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LEAD Public Schools, Inc. and Affiliates' ability to continue as a going concern for a period of one year subsequent to the date of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 LEAD Public Schools, Inc. and Affiliates' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LEAD Public Schools, Inc. and Affiliates' ability to continue as a going concern for a reasonable period of time.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2023, 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.

Cherry Bekaert LLP

Nashville, Tennessee
March 30, 2023

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

JUNE 30, 2022 AND 2021

	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 11,085,693	$ 12,438,933
Accounts receivable	11,516,319	3,380,988
Prepaid expenses and other	498,074	80,811
Total Current Assets	23,100,086	15,900,732
Right-of-use asset - operating lease	4,099,576	-
Property and equipment, net	7,535,108	8,132,522
Total Assets	$ 34,734,770	$ 24,033,254
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 1,341,312	$ 1,065,088
Accrued expenses	1,888,714	1,321,117
Operating lease liabilities, current portion	635,322	-
Notes payable, current portion	-	164,947
Total Current Liabilities	3,865,348	2,551,152
Operating lease liabiliites, noncurrent portion	3,718,878	-
Notes payable, noncurrent portion	-	5,673,014
Total Liabilities	7,584,226	8,224,166
Net Assets:		
Without donor restrictions	27,150,544	15,764,088
With donor restrictions	-	45,000
Total Net Assets	27,150,544	15,809,088
Total Liabilities and Net Assets	$ 34,734,770	$ 24,033,254

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

YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
District funding	$ 38,968,491	$ -	$ 38,968,491
Federal grants	12,180,680	-	12,180,680
Contributions and other	766,762	373,500	1,140,262
Interest income	35,401	-	35,401
Net assets released from restrictions	418,500	(418,500)	-
Total Public Support and Revenue	52,369,834	(45,000)	52,324,834
Expenses:			
Student instruction and services	37,758,851	-	37,758,851
Administration	2,853,890	-	2,853,890
Fundraising	370,637	-	370,637
Total Expenses	40,983,378	-	40,983,378
Change in net assets	11,386,456	(45,000)	11,341,456
Net assets, beginning of year	15,764,088	45,000	15,809,088
Net assets, end of year	$ 27,150,544	$ -	$ 27,150,544

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

YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
District funding	$ 37,074,425	$ -	$ 37,074,425
Federal grants	4,885,320	-	4,885,320
Contributions and other	482,742	300,000	782,742
Net assets released from restrictions	255,000	(255,000)	-
Total Public Support and Revenue	42,697,487	45,000	42,742,487
Expenses:			
Student instruction and services	30,610,836	-	30,610,836
Administration	3,644,565	-	3,644,565
Fundraising	274,102	-	274,102
Total Expenses	34,529,503	-	34,529,503
Change in net assets	8,167,984	45,000	8,212,984
Net assets, beginning of year	7,596,104	-	7,596,104
Net assets, end of year	$ 15,764,088	$ 45,000	$ 15,809,088

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, 2022

	Student Instruction and Services	Supporting Services		Total Expenses
		Administration	Fundraising	
Salaries, wages, and benefits	$ 24,721,647	$ 1,333,937	$ 314,096	$ 26,369,680
Occupancy	3,627,880	109,244	2,317	3,739,441
Professional and service fees	1,994,659	591,561	-	2,586,220
Transportation	2,942,908	42,256	-	2,985,164
Depreciation and amortization	1,369,981	10,592	-	1,380,573
Instructional	1,011,321	56,491	7,995	1,075,807
Office supplies and equipment	833,252	36,478	-	869,730
Organizational development	278,942	190,921	-	469,863
Authorizer fees	-	323,401	-	323,401
Interest cost	258,749	-	-	258,749
Athletic cost	297,280	-	-	297,280
Outreach	102,638	-	-	102,638
Miscellaneous	225,752	159,009	-	384,761
Loss on disposal of assets	93,842	-	-	93,842
Staff development	-	-	46,229	46,229
Total Expenses	$ 37,758,851	$ 2,853,890	$ 370,637	$ 40,983,378

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, 2021

	Student Instruction and Services	Supporting Services		Total
		Administration	Fundraising	Expenses
Salaries, wages, and benefits	$ 22,389,857	$ 1,829,703	$ 183,007	$ 24,402,567
Occupancy	2,417,364	103,811	-	2,521,175
Professional and service fees	1,051,126	968,811	56,645	2,076,582
Transportation	1,783,813	3,385	-	1,787,198
Depreciation	1,255,027	69,205	-	1,324,232
Instructional	645,426	114,114	6,919	766,459
Office supplies and equipment	490,944	108,293	1,452	600,689
Organizational development	145,388	88,790	12,892	247,070
Authorizer fees	-	360,503	-	360,503
Interest cost	242,358	-	-	242,358
Athletic cost	83,679	-	-	83,679
Outreach	63,682	11,238	-	74,920
Miscellaneous	42,172	(13,288)	-	28,884
Staff development	-	-	13,187	13,187
Total Expenses	$ 30,610,836	$ 3,644,565	$ 274,102	$ 34,529,503

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

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

YEARS ENDED JUNE 30, 2022 AND 2020

	2022	2021
Cash flows from operating activities:		
Change in net assets	$ 11,341,456	$ 8,212,984
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	1,380,573	1,324,232
Loss on disposal of asset	93,842	-
Noncash lease expense	254,624	-
Changes in operating assets and liabilities:		
Accounts receivable	(8,135,331)	(1,904,329)
Prepaid expenses and other	(417,263)	(35,113)
Accounts payable	276,224	619,007
Accrued expenses	567,597	444,054
Net cash flows from operating activities	5,361,722	8,660,835
Cash flows from investing activities:		
Purchase of property and equipment	(877,001)	(1,251,133)
Net cash flows from investing activities	(877,001)	(1,251,133)
Cash flows from financing activities:		
Proceeds from notes payable	-	300,000
Payments on notes payable	(5,837,961)	(158,001)
Net cash flows from financing activities	(5,837,961)	141,999
Net change in cash and cash equivalents	(1,353,240)	7,551,701
Cash and cash equivalents, beginning of year	12,438,933	4,887,232
Cash and cash equivalents, end of year	$ 11,085,693	$ 12,438,933
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 258,749	$ 242,358

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

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").

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. 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. Academy began classes in July 2007 with fifth and sixth grade classes. Academy began classes in July 2007 with fifth and sixth grade classes and has since transitioned to serving ninth through twelfth grades. 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 and currently enrolls students from fifth grade 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 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. Academy currently enrolls students in grades nine through twelve. Academy's charter provides for a total enrollment of 458. Cameron currently enrolls students in grades five through nine. Cameron's charter provides for a total enrollment of 627. Brick Church currently enrolls students in grades five through nine. Brick Church's charter provides for a total enrollment of 275. Southeast currently enrolls students in grades five through twelve. Southeast's charter provides for a total enrollment of 805. Neely's Bend currently enrolls students in grades five through nine. Neely's Bend's charter provides for a total enrollment of 465.

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, Academy, Cameron, Brick Church, Southeast, Neely's Bend, and LEAD Real Estate (collectively, the "Organization").

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 Restrictions – 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 Restrictions – 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 restrictions and reported in the statements of activities as net assets released from restrictions. 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. 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, 2022 or 2021.

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.

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 restrictions 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 restrictions. 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 restrictions to net assets without donor restrictions at that time.

Contributions – Contributions and unconditional promises to give are recognized as revenue when made or a written promise to give is conveyed, whichever is earliest. Contributions of assets other than cash are recorded at estimated fair value at the date of donation. Contributions received with donor stipulations that restrict the use of the assets and promises to give that have time or purpose restrictions are reported as revenue with donor restrictions. When the use or time restriction is met, the amount is reported as revenue without donor restrictions and a reduction in revenue with donor restrictions. The Organization recognizes contributions when cash, securities, or other assets or an unconditional promise to give are received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. At December 31, 2022 and 2021, the Organization did not have any conditional promises to give.

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.

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

Change in Accounting Principles – In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. FASB also subsequently issued additional ASUs which amend and clarify Topic 842. The most significant change in the new leasing guidance is the requirement to recognize right-to-use ("ROU") assets and lease liabilities for operating leases on the balance sheet.

The Organization adopted these ASUs effective July 1, 2021 using the modified retrospective approach. As a result of adopting these ASUs, the Organization recorded ROU assets and lease liabilities of approximately $4,634,965. Adoption of the new standard did not materially impact the Organizations change in net assets and had no impact on cash flows.

Subsequent Events – The Organization evaluated subsequent events through March 30, 2023, 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 restrictions or other restrictions limiting their use within one year of the consolidated statements of financial position, comprise the following at June 30:

	2022	2021
Financial assets at June 30:		
Cash and cash equivalents	$ 11,085,693	$ 12,438,933
Accounts receivable	11,516,319	3,380,988
Total financial assets	22,602,012	15,819,921
Less amounts not available to be used for general expenditures within one year	-	(45,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 22,602,012	$ 15,774,921

Note 3—Property and equipment

Property and equipment, net consists of the following at June 30:

	2022	2021
Land	$ 542,960	$ 542,960
Buildings and improvements	8,688,103	8,207,072
Computer equipment	2,794,355	3,487,863
Furniture and fixtures	299,319	425,304
Office equipment	119,281	184,162
Textbooks	-	166,177
Leasehold improvements	1,607,868	1,665,092
School buses	-	426,284
	14,051,886	15,104,914
Less accumulated depreciation	(6,516,778)	(6,972,392)
	$ 7,535,108	$ 8,132,522

Depreciation expense totaled $1,380,573 and $1,324,233 for the years ended June 30, 2022 and 2021, respectively.

Note 4—Leases

The Organization leases building space for school activity use. The Organization determines whether a contract contains a lease at inception by determining if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Organization has elected to account for lease and non-lease components as a single component.

Right-of-use ("ROU") assets and lease liabilities are recognized at the commencement date based on the present value of the future minimum lease payments over the lease term. Renewal and termination clauses that are factored into the determination of the lease term if it is reasonably certain that these options would be exercised by the Organization. Lease assets are amortized over the lease term unless there is a transfer of title or purchase option reasonably certain of exercise, in which case the asset life is used. Certain of our lease agreements include variable payments. Variable lease payments not dependent on an index or rate primarily consist of common area maintenance charges and are not included in the calculation of the ROU asset and lease liability and are expensed as incurred. In order to determine the present value of lease payments, the Organization uses the implicit rate when it is readily determinable. As most of the Organization's leases do not provide an implicit rate, management uses the Organization's incremental borrowing rate based on the information available at lease commencement to determine the present value of lease payments.

The lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Organization does not have leases where it is involved with the construction or design of an underlying asset. The Organization has no material obligation for leases signed but not yet commenced as of June 30, 2022. The Organization does not have any sublease activities.

The Organization has elected the practical expedient not to recognize leases with terms of 12 months or less on the statement of financial position and instead recognize the lease payments on a straight-line basis over the term of the lease and variable lease payments in the period in which the obligation for the payments is incurred. Therefore, short-term lease expense for the period does not reflect ongoing short-term lease commitments. Lease expense for such short-term leases was not material for the year ended June 30, 2022.

Note 4—Leases

As of June 30, 2022, future minimum operating lease payments required are as follows:

Years Ending June 30,		
2023	$	635,322
2024		653,062
2025		671,307
2026		550,013
2027		566,514
Thereafter		2,441,184
Total lease payments		5,517,402
Less interest		(1,163,202)
Present value of lease liabilities	$	4,354,200

Required supplemental information relating to our leases for the years ended June 30, 2022 is as follows:

Operating:		
Operating leases, included in operating expenses	$	743,531
Short-term leases, included in operating expenses		129,394
Net operating lease cost	$	872,925

Lease Term and Discount Rate:	
(in years)	
Weighted average remaining lease term - operating leases	6.00
Weighted average discount rate - operating leases	5.50%

Note 5—Notes payable

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 were paid off on May 27, 2022. The agreement is secured by a deed of trust and a negative pledge of the Organization's assets. During FY22, the Organization paid this debt in full. Amounts outstanding under this note totaled $-0- and $5,537,961 at June 30, 2022 and 2021, respectively. Additionally, the agreement contains restrictive covenants that are tested annually on June 30. At June 30, 2022, management believes the Organization was in compliance with the other covenants.

During June 2020, the Organization entered into a loan agreement with CSGF Tennessee, LLC. In July 2020, under terms of the loan, the Organization received $300,000 to be used for general support and management of the Organization. This note bears no interest. Amounts outstanding under the agreement totaled $300,000 at June 30, 2021. Total outstanding amounts plus accrued and unpaid interest were paid off in full on May 27, 2022.

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 2023 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, 2022 or 2021.

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 2022 and 2021 totaled $12,180,680 and $4,885,320, respectively.

Note 8—Concentrations

For the years ended June 30, 2022 and 2021, the Organization received $38,968,491 (74%) and $36,537,917 (85%), respectively, of its funding for operations from MNPS and ASD 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 publicly 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.

Teacher Retirement Plan of 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 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 July 2 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.

Note 9—Retirement plans (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. 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, 2022 and 2021, to the Teacher Legacy Pension Plan were $222,215 and $227,037, respectively, which is 10.27% and 10.63% of covered payroll, respectively. 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.

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 publicly 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 July 2 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. 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.

Note 9—Retirement plans (continued)

Employer contributions by the Organization for the years ended June 30, 2022 and 2021, to the Teacher Retirement were $173,991 and $139,522, respectively, which is 2.03% of covered payroll for both years. 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 $1,127,069 and $1,007,316 for the years ended June 30, 2022 and 2021, respectively.