

*Financial Statements*

EMERALD CHARTER SCHOOLS  
EMERALD ACADEMY

Year Ended June 30, 2021

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Directors  
Emerald Charter Schools  
Knoxville, Tennessee

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Emerald Academy as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Emerald Academy's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the 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 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 financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Emerald Academy as of June 30, 2021 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information/Management's Discussion and Analysis***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 to 7, the schedule of proportionate share of the net pension liability (asset) on pages 40 to 43 and the schedule of pension contributions on pages 44 to 45 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other information we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Emerald Academy's financial statements. The accompanying other supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by Title 2 U. S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedules of long-term debt requirements and expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The schedule of principal officials has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2022 on our consideration of Emerald Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Emerald Academy'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 Emerald Academy's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Mitchell Emert & Hill".

January 27, 2022

## **Emerald Academy Management's Discussion & Analysis**

Our discussion and analysis of Emerald Academy's (the Academy) financial performance provides an overview of its financial activities for the year ended June 30, 2021 as compared to the fiscal year ended June 30, 2020. This section should be read in conjunction with the financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Academy exceeded its liabilities at June 30, 2021 by \$2,270,045(\$951,659 at June 30, 2020).
- The Academy's net position increased by \$1,318,386 during the year ended June 30, 2021 (decreased by \$82,019 in 2020).
- During the year ended June 30, 2021, total revenues of \$6,290,913 were comprised of federal, state and local funds of approximately 80% and charitable giving and other of approximately 20%. During the year ended June 30, 2020, total revenues of \$5,032,908 were comprised of state funds of approximately 87% and charitable giving and other of approximately 13%.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This financial report consists of a series of financial statements, notes to those statements and supplementary information. The statements are organized so that the reader can understand the financial position of the Academy as a whole and then proceed to a detailed look of the organization's specific financial activities.

### **REPORTING THE ENTITY AS A WHOLE**

*The Statement of Net Position and Statement of Activities:*

In general, users of these financial statements desire to know whether the Academy's financial position is better or worse as a result of the period's activities. The statement of net position and statement of activities report information with respect to the Academy as a whole in a manner that helps to answer that question. These statements, beginning on page 8, present all assets and liabilities using the accrual basis, which accounts for current period revenue and expenses regardless of when cash was received or paid.

Similar to the private sector statement of financial position (or balance sheet) that reports on retained earnings, the statement of net position reports the Academy's total assets less total liabilities. The Academy's net position at period end represents resources available for future use or growth.

The statement of activities, similar to the private sector statement of operations (or profit and loss statement), reports the Academy's change in net position as a result of financial activity during the period. This report reflects the Academy's revenue and expenses during the period.

## **REPORTING THE ENTITY'S FUNDS**

### *Fund Financial Statements:*

The Academy's fund financial statements (beginning on page 10), which includes the balance sheet and the statement of revenue, expenditures and changes in fund balances, provide information about the general purpose school fund (or operating fund), the federal projects fund and the capital projects fund. The Academy establishes these funds to manage and properly account for dollars to be utilized for particular purposes, as well as to comply with various donor and grant provisions.

The Academy funds are considered to be "governmental funds," which are reported on the "modified accrual" basis of accounting. This basis of accounting differs from the accrual basis used in the entity-wide financial statements. The relationship between governmental activities, as reported in the statement of net position and the statement of activities, and governmental funds, as reported in the balance sheet and the statement of revenue, expenditures and changes in fund balances, is reconciled on pages 11 and 14.

## **ENTITY-WIDE FINANCIAL ANALYSIS**

The Academy's assets exceeded its liabilities at June 30, 2021 by \$2,270,045 (\$951,659 at June 30, 2020). At June 30, 2021 the Academy's assets included \$1,563,853 in cash and accounts receivable. At June 30, 2020 the Academy's assets included \$806,075 of cash and accounts receivable. As of June 30, 2021, the Academy had invested \$4,901,361 (\$4,973,321 at June 30, 2020) in capital assets (net of accumulated depreciation). This investment includes building improvements to the Academy's facility used for instructional purposes, instructional support equipment and furniture. Additional information on property and equipment can be found in Note D of the financial statements. At June 30, 2021 the Academy had debt in the amount of \$4,094,875 (\$5,140,402 at June 30, 2020), which was used to fund certain capital purchases and improvements. See Note H to the financial statements for further information.



At June 30 the Academy's net position consisted of the following:

	<u>2021</u>	<u>2020</u>
Current assets	\$ 1,593,407	\$ 818,306
Net pension asset	299,441	353,355
Restricted assets	98,761	55,196
Capital assets	<u>4,901,361</u>	<u>4,973,321</u>
Total assets	6,892,970	6,200,178
Deferred outflows of resources	214,391	251,864
Current liabilities	(589,381)	(374,541)
Noncurrent liabilities	<u>(4,094,875)</u>	<u>(4,840,402)</u>
Total liabilities	(4,684,256)	(5,214,943)
Deferred inflows of resources	<u>(153,059)</u>	<u>(285,442)</u>
	<u>\$ 2,270,045</u>	<u>\$ 951,659</u>
Net position:		
Net investment in capital assets	\$ 806,486	\$ 878,446
Restricted	676,078	533,401
Unrestricted(deficit)	<u>787,481</u>	<u>(460,188)</u>
Total net position	<u>\$ 2,270,045</u>	<u>\$ 951,659</u>

During the year ended June 30, 2021, total net position increased \$1,318,386 (decreased \$82,019 during 2020). The increase in the change in net position for the year ended June 30, 2021 as compared to the change in net position for the year ended June 30, 2020 is mostly due to the forgiveness of the Paycheck Protection Program loan and increased operating grants and contributions.

At June 30, 2021 unrestricted net position of the Academy was \$787,481 (\$460,188 deficit unrestricted net position at June 30, 2020). A schedule of the Academy's entity-wide revenue and expenses for the period ended June 30 is as follows.

	<u>2021</u>	<u>2020</u>
Revenue:		
Operating grants and contributions	\$ 5,527,547	\$ 5,024,038
Fees, fines and charges for service	553	6,747
Paycheck Protection Program loan forgiveness	745,527	0
Interest income	<u>17,286</u>	<u>2,123</u>
Total revenue	6,290,913	5,032,908

	<u>2021</u>	<u>2020</u>
Expenses:		
Employee compensation	2,937,529	3,054,169
Employee benefits	683,793	742,072
Depreciation	183,763	182,664
Contracted services	559,682	551,393
Supplies and materials	549,971	527,281
Staff development	7,829	20,817
Other charges	46,687	15,987
Interest expense	<u>3,273</u>	<u>20,544</u>
Total expenses	<u>4,972,527</u>	<u>5,114,927</u>
Change in net position	<u>\$ 1,318,386</u>	<u>\$ (82,019)</u>

## **FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS**

The Academy's funds, as presented on the balance sheet on page 10, reported combined fund balances of \$1,002,786 at June 30, 2021. A combined fund balance of \$498,962 was reported on the balance sheet at June 30, 2020, the entirety of which resided in the general purpose school fund. Differences between the amounts reported within the Academy's funds and those reported as the Academy's entity-wide financial statements are due to the different basis of accounting as discussed earlier (see page 11 and 14 for the reconciliation of amounts) and are largely due to the accounting for capital assets and related debt.

## **ACADEMY ACTIVITIES**

The Academy was founded to provide free, sustainable, high quality public schools in Knoxville's urban neighborhoods. Authorized by the Knox County Board of Education, Emerald Academy opened with an inaugural class of 120 kindergarten and first grade scholars in Fall 2018. Grade levels were added over the next several years such that the Academy now educates kindergarten through eighth grade scholars. Through rigorous curriculum, high quality instruction, and positive character development, the mission of the Academy is to ensure that all kindergarten through eighth grade scholars have access to an outstanding college preparatory education.

## **CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT**

This financial report is designed to be accountable to, and provide information for, the parents of Academy scholars, the Knox County taxpayers, donors, creditors, authorities over grant funding, and agencies tasked with oversight of Knox County public education with a general overview of the Academy's financial position. For questions about this report or additional financial information, contact Steve Diggs, President Emerald Service Bureau, by telephone at (865) 637-3227.

EMERALD ACADEMY

**STATEMENT OF NET POSITION**

June 30, 2021

**ASSETS**

Cash and cash equivalents	\$ 1,370,644
Accounts receivable	193,209
Prepaid expenses	29,554
Net pension asset	299,441
Capital assets not being depreciated	110,000
Capital assets being depreciated net of accumulated depreciation	<u>4,791,361</u>
	6,794,208

**RESTRICTED CASH**

Pension trust contributions	98,761
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows related to pensions	<u>214,391</u>
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\$ 7,107,360

**LIABILITIES**

Accounts payable	\$ 30,907
Accrued salaries	135,569
Deferred revenue	122,905
Notes payable	300,000
Long-term debt	<u>4,094,875</u>
	4,684,256

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to pensions	153,059
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**NET POSITION**

Net investment in capital assets	\$ 806,486	
Restricted	676,078	
Unrestricted	<u>787,481</u>	<u>2,270,045</u>

\$ 7,107,360

See the accompanying notes to the financial statements.

EMERALD ACADEMY

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2021

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Change In Net Position</u>
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
<b>Governmental Activities:</b>				
Education	\$ 4,972,527	\$ 553	\$ 5,527,547	\$ 555,573
<b>General Revenue:</b>				
Paycheck Protection Program loan forgiveness				745,527
Interest income				<u>17,286</u>
Total general revenue				<u>762,813</u>
				<b>CHANGE IN NET POSITION</b>
				1,318,386
<b>NET POSITION AT THE BEGINNING OF THE YEAR</b>				<u>951,659</u>
				<b>NET POSITION AT THE END OF THE YEAR</b>
				<u><u>\$ 2,270,045</u></u>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

June 30, 2021

	<u>General Purpose School Fund</u>	<u>Federal Project Fund</u>	<u>Capital Project Fund</u>	<u>Totals</u>
<b>ASSETS</b>				
Cash	\$ 1,363,494	\$ 0	\$ 7,150	\$ 1,370,644
Accounts receivable	180,220	12,989	0	193,209
Due from other funds	12,989	0	0	12,989
Prepaid expenses	29,554	0	0	29,554
	<u>1,586,256</u>	<u>12,989</u>	<u>7,150</u>	<u>1,606,395</u>
<b>RESTRICTED ASSET</b>				
Pension trust contributions	<u>98,761</u>	<u>0</u>	<u>0</u>	<u>98,761</u>
	<u>\$ 1,685,018</u>	<u>\$ 12,989</u>	<u>\$ 7,150</u>	<u>\$ 1,705,156</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 30,907	\$ 0	\$ 0	\$ 30,907
Due to other funds	0	12,989	0	12,989
Deferred revenue	222,905	0	0	222,905
Accrued salaries	135,569	0	0	135,569
Notes payable	300,000	0	0	300,000
	<u>689,381</u>	<u>12,989</u>	<u>0</u>	<u>702,370</u>
<b>FUND BALANCES</b>				
Nonspendable	29,554	0	0	29,554
Restricted	369,488	0	7,150	376,638
Unassigned	596,594	0	0	596,594
	<u>995,635</u>	<u>0</u>	<u>7,150</u>	<u>1,002,786</u>
	<u>\$ 1,685,018</u>	<u>\$ 12,989</u>	<u>\$ 7,150</u>	<u>\$ 1,705,156</u>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

June 30, 2021

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 1,002,786</b>
Capital assets used in governmental activities are reported in the statement of net position; however, they are not current financial resources; therefore, they are not reported in the governmental funds balance sheet.	4,901,361
Net pension assets and liabilities, and the related deferred outflows and deferred inflows, are reported in the statement of net position; however, they are not current financial resources; therefore, they are not reported in the governmental funds balance sheet.	
Net pension asset	299,441
Deferred outflows of resources	214,391
Deferred inflows of resources	(153,059)
Some of the Academy's pledges will be collected after year-end, but are not available soon enough to pay for the current year's expenditures; therefore, they are reported as deferred revenue in the governmental funds balance sheet.	100,000
Long-term liabilities are not due in the current period; therefore, they are not reported in the governmental funds balance sheet.	<u>(4,094,875)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 2,270,045</u></b>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

**STATEMENT OF REVENUE, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

Year Ended June 30, 2021

	<u>General Purpose School Fund</u>	<u>Federal Project Fund</u>	<u>Capital Project Fund</u>	<u>Totals</u>
<b>REVENUE</b>				
Contributions	\$ 1,027,406	\$ 0	\$ 0	\$ 1,027,406
Federal, state and local funds	4,004,017	395,749	0	4,399,766
Interest	17,277	0	10	17,286
Revenues - internal school funds	375	0	0	375
Other income	<u>553</u>	<u>0</u>	<u>0</u>	<u>553</u>
<b>TOTAL REVENUE</b>	<b>5,049,628</b>	<b>395,749</b>	<b>10</b>	<b>5,445,386</b>
<b>EXPENDITURES</b>				
Current:				
Personal services	2,553,133	384,396	0	2,937,529
Employee benefits	712,950	11,353	0	724,303
Contracted services	559,682	0	0	559,682
Supplies and materials	549,916	0	55	549,971
Staff development	7,829	0	0	7,829
Expenditures - internal schools funds	485	0	0	485
Other charges	46,687	0	0	46,687
Capital outlay	111,803	0	0	111,803
Debt service	<u>3,273</u>	<u>0</u>	<u>0</u>	<u>3,273</u>
<b>TOTAL EXPENDITURES</b>	<b><u>4,545,758</u></b>	<b><u>395,749</u></b>	<b><u>55</u></b>	<b><u>4,941,562</u></b>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

**STATEMENT OF REVENUE, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

(continued)

Year Ended June 30, 2021

	<u>General Purpose School Fund</u>	<u>Federal Project Fund</u>	<u>Capital Project Fund</u>	<u>Totals</u>
<b>CHANGES IN FUND BALANCES</b>	503,870	0	(45)	503,824
<b>FUND BALANCES AT THE BEGINNING OF THE YEAR</b>	<u>491,766</u>	<u>0</u>	<u>7,196</u>	<u>498,962</u>
<b>FUND BALANCES AT THE END OF THE YEAR</b>	<u>\$ 995,635</u>	<u>\$ 0</u>	<u>\$ 7,150</u>	<u>\$ 1,002,786</u>



EMERALD ACADEMY

**RECONCILIATION OF THE STATEMENT OF REVENUE,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF THE  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2021

<b>Changes in Fund Balances</b>	<b>\$ 503,824</b>
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation:</p>	
Acquisition of capital assets	111,803
Depreciation expense	(183,763)
<p>Revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental fund financial statements:</p>	
Deferred pledge revenue - June 30, 2021	100,000
<p>Pension expense reported in the statement of activities does not result in current financial resources, therefore, it is not reported in the statement of revenue, expenditures and changes in fund balances of governmental funds</p>	
	(45,278)
<p>Forgiveness of long-term debt reduces long-term liabilities for governmental activities</p>	
	745,527
<p>Retirement contributions made after the actuarial measurement date are not expenditures in the governmental funds, but increase deferred outflows for governmental activities.</p>	
	<u>86,274</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$1,318,386</u></u></b>

See the accompanying notes to the financial statements.

## EMERALD ACADEMY

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021

#### **NOTE A - DESCRIPTION OF ORGANIZATION**

Emerald Charter Schools was incorporated in January 2014 as a Tennessee nonprofit corporation and began operations to open Emerald Academy (the Academy) for the 2015-2016 school year. Pursuant to Section 6(b)(1)(A) of the Tennessee Public Charter School Act of 2002, Emerald Charter Schools has been approved to operate the Academy as a public charter school. 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. Emerald Charter Schools entered into a Charter School Agreement with Knox County Schools in June 2014, to operate the Academy as a charter school in Knoxville, Tennessee. The Academy began classes in July 2015 with a kindergarten class and first grade class with additional grades added each year. This resulted in full enrollment of grades kindergarten through eighth by the 2019-2020 school year.

#### **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### Government-Wide and Fund Financial Statements

The government-wide financial statements, which consist of the statement of net position and the statement of activities, report information on all nonfiduciary activities of the Academy. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes 1) charges to customers or members who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other income not included among program revenue is reported instead as general revenue.

##### Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting.

The Academy reports the following major governmental funds:

The *general purpose school fund* is the Academy's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *federal project fund* is used to account for revenue legally restricted for federal projects of the Academy.

The *capital project fund* is used to account for revenue legally restricted for capital projects of the Academy.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net position groups:

Net Investment in Capital Assets

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net investment in capital assets at June 30, 2021 has been calculated as follows:

Capital assets	\$ 5,900,115
Accumulated depreciation	(998,754)
Bonds payable	<u>(4,094,875)</u>
	<u>\$ 806,486</u>

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Restricted

This category includes net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the Academy pursuant to those stipulations or that expire by the passage of time. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then the unrestricted resources as they are needed. Governmental funds report net position restricted for pension asset, capital projects, sports, library, tutoring, lab school, internal school funds, pension trust contributions, time restrictions and other miscellaneous items. Net position of the capital project fund is restricted because its use is limited to capital projects.

Unrestricted

This category includes net position that is not subject to externally imposed stipulations and that do not meet the definition of "Restricted" or "Net Investment in Capital Assets". Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Fund Balances

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

Nonspendable Fund Balances

Fund balances reported as nonspendable in the accompanying financial statements represent amounts for prepaid expenses or inventory.

Restricted Fund Balances

Fund balances reported as restricted in the accompanying financial statements represent amounts restricted to specific purposes by externally imposed restrictions or imposed by law through constitutional provisions or enabling legislation.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Committed Fund Balances

Fund balances reported as committed in the accompanying financial statements represent amounts that can be used only for the specific purposes determined by a formal action of the Academy's highest level of decision-making authority. The Board of Directors commits resources for specific purposes by passing resolutions.

Assigned Fund Balances

Fund balances reported as assigned in the accompanying financial statements represent amounts that are constrained by the Academy's intent to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by the Board of Directors.

Unassigned Fund Balance

In accordance with generally accepted accounting principles, the general fund is the only fund at the Academy that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the general fund.

The Academy would typically use restricted resources first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns on the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial cost of \$1,000 or more. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciation expense for the year ended June 30, 2021 was \$183,764.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (in the government-wide statements), information about the fiduciary net position of the Teacher Legacy Pension Plan of the Tennessee Consolidated Retirement System (TCRS) and the Teacher Retirement Plan of the TCRS and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the respective plan. Investments are reported at fair value.

Income Tax

Emerald Charter Schools is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on unrelated business income. Emerald Charter Schools' income tax filings are open and subject to examination by the Internal Revenue Service generally for three years after they are filed. However, Emerald Charter Schools is not currently under audit nor has Emerald Charter Schools been contacted by this jurisdiction. Emerald Charter Schools believes they have appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Restricted Assets

Restricted assets consist of amounts held in a pension stabilization trust by the Tennessee Consolidated Retirement System (TCRS) for the benefit of the Academy's Teacher Retirement Plan. The purpose of this trust is to accumulate funds to provide stabilization (smoothing) of retirement costs to the Academy in times of fluctuating investment returns and market downturns. These funds are held and invested by TCRS pursuant to an irrevocable agreement and may only be used for the benefit of the Academy to fund retirement benefits upon approval of the TCRS Board of Directors. To date, the Academy has not withdrawn any funds from the trust to pay pension cost. Trust documents provide that the funds are not subject to the claims of general creditors of the Academy.

Deferred Revenue

Deferred revenue consists of overpaid Basic Education Program funding which will be deducted from future distributions. Deferred revenue in the governmental fund financial statements also consists of pledges receivable which were not collected within 60 days of the end of the current fiscal period.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

**NOTE C - CASH AND INVESTMENTS**

Cash and investments are stated at cost, which approximates market value. Carrying amounts at June 30, 2021 were as follows:

Cash on hand	\$ 511
Cash in bank	<u>1,370,133</u>
Total	<u>\$ 1,370,644</u>

State of Tennessee law authorizes the Academy to invest in obligations of the United States of America or its agencies, nonconvertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States of America or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the Tennessee Department of Treasury Local Government Investment Pool (LGIP). The LGIP contains investments in certificate of deposits, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool.

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits.

At June 30, 2021 all bank balances were fully insured by the FDIC or the State of Tennessee Bank Collateral Pool.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

*TCRS Stabilization Trust*

Legal Provisions

The Academy is a member of the Tennessee Consolidated Retirement System (TCRS) Stabilization Reserve Trust (the Trust). The Academy has placed funds into the irrevocable trust as authorized by statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the Trust. Funds of Trust members are held and invested in the name of the Trust for the benefit of each member. Each member's funds are restricted for the payment of retirement benefits of that member's employees. Trust funds are not subject to the claims of general creditors of the Academy.

The Trust is authorized to make investments as directed by the TCRS Board of Trustees. The Academy may not impose any restrictions on investments placed by the Trust on their behalf. It is the intent of the plan trustees to allocate these funds in the future to offset pension costs.

At June 30, 2021 the Academy had the following investments held by the Trust on its behalf.

Asset Class	Percentage Target Allocations	Stabilization Trust Allocation
U.S. Equity	31%	\$ 30,616
Developed market international equity	14%	13,827
Emerging market international equity	4%	3,950
Private equity and strategic lending	20%	19,752
U.S. fixed income	20%	19,752
Real estate	10%	9,876
Short-term securities	<u>1%</u>	<u>988</u>
	<u>100%</u>	<u>\$ 98,761</u>

For further information concerning the Academy's investments with the TCRS Stabilization Reserve Trust, audited financial statements of the Tennessee Consolidated Retirement System may be obtained at <https://comptroller.tn.gov/content/dam/cot/sa/advanced-search/disclaimer/2020/ag19091.pdf>



EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

**NOTE D - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2021 was as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2021</u>
<u>Capital assets not</u> <u>being depreciated</u>				
Land	\$ 100,000	\$ 10,000	\$ 0	\$ 110,000
Construction in process	<u>49,284</u>	<u>0</u>	<u>(49,284)</u>	<u>0</u>
	149,284	10,000	(49,284)	110,000
<u>Capital assets</u> <u>being depreciated</u>				
Buildings	5,073,407	79,565	0	5,152,972
Land improvements	72,214	0	0	72,214
Furniture	117,672	0	0	117,672
Equipment	<u>375,735</u>	<u>71,522</u>	<u>0</u>	<u>447,257</u>
	5,639,028	151,087	0	5,790,115
<u>Accumulated depreciation</u>				
Buildings	(554,458)	(132,301)	0	(686,758)
Land improvements	(9,056)	(3,611)	0	(12,667)
Furniture	(57,665)	(11,767)	0	(69,433)
Equipment	<u>(193,811)</u>	<u>(36,084)</u>	<u>0</u>	<u>(229,895)</u>
	<u>(814,990)</u>	<u>(183,764)</u>	<u>0</u>	<u>(998,754)</u>
	<u>\$ 4,973,321</u>	<u>\$ (22,677)</u>	<u>\$ (49,284)</u>	<u>\$ 4,901,361</u>

Depreciation expense is included with education expense in the statement of activities.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

**NOTE E - PENSION PLANS**

*Teacher Legacy Pension Plan*

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 Academy 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.

The Teacher Retirement Plan became effective July 1, 2014 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.

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 are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest 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.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

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 .5%. A 1% COLA is granted if the CPI change is between .5% 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. Employees contribute 5% of salary. The Local Education Agencies (LEAs) makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. By law, employer contributions are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if required employer contributions are not remitted. Employer contributions by the Academy for the year ended June 30, 2021 to the Teachers Legacy Pension Plan were \$58,506 which is 10.27% 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.

Pension Assets(Liabilities) and Pension Income(Expense)

At June 30, 2021 the Academy reported an asset of \$233,135 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension asset was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2020 the Academy's proportion was 0.030572%. The proportion measured as of June 30, 2019 was 0.027174%.

Pension Expense

For the year ended June 30, 2021, the Academy recognized pension expense of \$22,426.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2021, the Academy reported the following deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 8,863	\$ 112,087
Changes in assumptions	21,179	0
Net difference between projected and actual earnings on pension plan investments	52,068	0
Changes in proportion of net pension liability(asset)	29,654	9,417
Contributions subsequent to the measurement date of June 30, 2020	<u>58,506</u>	<u>not applicable</u>
	<u>\$ 170,270</u>	<u>\$ 121,504</u>

The Academy's employer contributions of \$58,506, reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase in net pension liability(asset) in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30:</u>	
2022	\$ (36,023)
2023	(6,905)
2024	(1,303)
2025	34,491
2026	0
Thereafter	0

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-Living adjustment	2.25%

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2020 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which the best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation.) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.50%.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. Equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	<u>1%</u>
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a blending of the factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all the LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the Academy's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.25%, as well as what the Academy's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Proportionate share of the net pension liability (asset)	\$ 725,044	\$ (233,135)	\$ (1,027,690)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

*Teacher Retirement Plan*

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 Academy 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.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

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 5 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 years 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 .5%. A 1% COLA is granted if the CPI change is between .5% 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.



EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

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 TCRS 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 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. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2021 to the Teacher Retirement Plan were \$27,768, which is 1.98% 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.

Pension Assets(Liabilities) and Pension Income(Expense)

At June 30, 2021, the Academy reported an asset of \$66,306 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2020, and the total pension asset used to calculate the net pension asset was determined by an actuarial value as of that date. The Academy's proportion of the net pension asset was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2020 the Academy's proportion was .116605%. The proportion measured as of June 30, 2019 was .131017%.

Pension Expense

For the year ended June 30, 2021, the Academy recognized pension expense of \$25,943.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2021, the Academy reported the following deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,463	\$ 16,616
Net difference between projected and actual earnings on pension plan investments	5,402	0
Changes in assumptions	2,079	0
Changes in proportion of net pension liability(asset)	6,409	14,939
Contributions subsequent to the measurement date of June 30, 2020	<u>27,768</u>	<u>not applicable</u>
	<u>\$ 44,121</u>	<u>\$ 31,555</u>

The Academy's employer contributions of \$27,768, reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as an increase of net pension liability(asset) in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending  
June 30:

2021	\$ (1,411)
2022	(630)
2023	(232)
2024	(119)
2025	(1,949)
Thereafter	(10,861)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-Living adjustment	2.25%

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2020 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

The best-estimates of geometric real rates of return and TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. Equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	<u>1%</u>
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a blending of the three factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all the LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Sensitivity of the Proportionate Share of Net Pension Liability(Asset) to Changes in the Discount Rate

The following presents the Academy's proportionate share of the net pension liability(asset) calculated using the discount rate of 7.25%, as well as what the Academy's proportionate share of the net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Proportionate share of the net pension liability(asset)	\$ 51,575	\$ (66,306)	\$ (153,200)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

**NOTE F - DEFINED CONTRIBUTION RETIREMENT PLANS**

The Academy, through an agreement with the Knox County Retirement and Pension Board, participates in a defined contribution plan established by Knox County, Tennessee. The plan is administered by Knox County Retirement and Pension Board and covers classified employees of the Academy. The Asset Accumulation Plan incorporates both a 401(a) plan and a 457(b) plan.

Participation in the 401(a) plan begins on the first day of employment and all eligible employees not participating in another plan are required to participate. The plan requires all participants to contribute a minimum of 6% of compensation and the employer matching contribution is 6%. Participants are 100% vested in the employer contributions after completing five years of credited services.

The voluntary 457(b) plan incorporates voluntary pre-tax contributions by the participant with an employer match based on length of service. The employer matching contributions for the 457(b) plan are deposited into the participants 401(a) account.

Three additional outside vendors, Knoxville Teachers Credit Union, Security Benefit and Nationwide, have been added to the plan to allow for investment alternatives. Each vendor prepares separate financial reports and is not included in the Knox County Voluntary 457 Plan Trust.

The Academy's employer contributions to the Asset Accumulation Plan were \$41,475 for the year ended June 30, 2021.

Teachers who participate in the Teacher Retirement Plan described in Note E, are also covered by a separate defined contribution 401(k) plan administered by the State of Tennessee. Employees are not required to contribute to the plan, employers are required to contribute 5% of employee compensation. Participants are immediately invested in the plan. The Academy's employer contributions to the state administered 401(k) plan were \$72,335 for the year ended June 30, 2021.

**NOTE G - RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2021, the Academy paid \$156,000 to Emerald Youth Foundation for administrative assistance. Additionally, one of Emerald Charter School's board members are on the board of Emerald Youth Foundation and Emerald Youth Foundation owns two bonds which are payable by the Academy.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

**NOTE H - DEBT**

Short-term debt at June 30, 2021 consisted of the following:

Note payable to Emerald Youth Foundation, due on demand;  
if no demand is made, principal and unpaid  
interest due December 31, 2021, interest accrues monthly  
at 1% per annum. This note is unsecured. \$ 300,000

Long-term debt at June 30, 2021 consisted of the following:

Health, Educational and Housing Facility Board  
of the County of Knox, Educational Revenue Bonds,  
Series 2015, interest only of 0.01% due monthly through  
April 2024. Thereafter, principal and interest of 3.45% due in  
monthly installments of varying amounts through April 2055,  
restricted for capital improvements; secured by a building \$ 3,594,875

Health, Educational and Housing Facility Board  
of the County of Knox, Educational Revenue Bonds,  
Series 2015B, interest only of 0.01% due monthly through  
April 2024. Thereafter, principal and interest of 3.45% due in  
monthly installments of varying amounts through April 2055,  
restricted for capital improvements; secured by a building 500,000

\$ 4,094,875

During the year ended June 30, 2020, the Academy applied for and received forgivable loan amounts totaling \$745,527 through the Paycheck Protection Program which was administered by the Small Business Administration as part of the Coronavirus Aid, Relief and Economic Security Act. In order for these funds to be forgiven, these funds are only to be used for payroll, employee pension, health insurance, rent and utilities expenses. The balance of the loan was fully forgiven in March 2021.

The Academy has two unsecured lines of credit at a local bank in the amounts of \$400,000 and \$600,000 with variable interest rates and a maturity date of February 2022. No line of credit had an outstanding balance as of June 30, 2021.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

Short-term debt is due within one year. Maturities of long-term debt as of June 30, 2021 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2022	\$ 0	\$ 2,317	\$ 2,317
2023	0	410	410
2024	48,886	94,227	143,113
2025	75,346	139,119	214,465
2026	77,968	136,497	214,465
2027	80,681	133,784	214,465
2028	83,488	130,977	214,465
2029	86,393	128,072	214,465
2030	89,400	125,065	214,465
2031	92,510	121,954	214,465
2032	95,730	118,735	214,465
2033	99,061	115,404	214,465
2034	102,508	111,957	214,465
2035	106,075	108,390	214,465
2036	109,766	104,699	214,465
2037	113,586	100,879	214,465
2038	117,538	96,927	214,465
2039	121,628	92,837	214,465
2040	125,861	88,604	214,465
2041	130,240	84,225	214,465
2042	134,772	79,693	214,465
2043	139,462	75,003	214,465
2044	144,315	70,150	214,465
2045	149,337	65,128	214,465
2046	154,533	59,932	214,465
2047	159,911	54,554	214,465
2048	165,475	48,990	214,465
2049	171,234	43,231	214,465
2050	177,192	38,273	214,465



EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2051	183,358	31,107	214,465
2052	189,738	24,727	214,465
2053	196,340	18,125	214,465
2054	203,173	11,292	214,465
2055	<u>169,372</u>	<u>4,224</u>	<u>173,596</u>
Totals	<u>\$ 4,094,875</u>	<u>\$ 2,663,792</u>	<u>\$ 6,758,667</u>

Changes in short-term and long-term debt for the year ended June 30, 2021 were as follows:

	<u>Balance 7/1/20</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance 6/30/21</u>	<u>Amounts Due Within One Year</u>
<b><u>Short-Term</u></b>					
Emerald Youth Foundation note payable	<u>\$ 300,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>
<b><u>Long-Term</u></b>					
Educational Revenue Bonds, Series 2015	\$ 3,594,875	\$ 0	\$ 0	\$ 3,594,875	\$ 0
Educational Revenue Bonds, Series 2015 2015B	500,000	0	0	500,000	0
Paycheck Protection Program	<u>745,527</u>	<u>0</u>	<u>745,527</u>	<u>0</u>	<u>0</u>
	<u>\$ 4,840,402</u>	<u>\$ 0</u>	<u>\$ 745,527</u>	<u>\$ 4,094,875</u>	<u>\$ 0</u>

Interest costs incurred during the year ended June 30, 2021 were \$3,273, none of which was capitalized.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2021

**NOTE I - RESTRICTED NET POSITION**

Amounts shown as restricted net position in the statement of net position are as follows:

Time restrictions	\$ 20,245
Restricted for capital projects	7,150
Restricted for sports	103,901
Library	21,795
Tutoring	24,121
Lab school	100,000
Other	239
Internal school funds	425
Pension trust contributions	98,761
Restricted for pension	<u>299,441</u>
	<u>\$ 676,078</u>

**NOTE J - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy purchases commercial insurance for theft or property damage, general liability claims and workers' compensation benefits. Settled claims resulting from those risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE K - CONTINGENCIES**

Beginning in March 2020, a public health crisis related to a novel strain of coronavirus (COVID-19) significantly impacted the national, state and local economies. The impact of the coronavirus is ongoing and the Academy's management is continuing to evaluate the impact on the financial position, liquidity and results of operations of the Academy.

**NOTE L - RECLASSIFICATION**

Certain fund balances were reclassified as of July 1, 2020 to properly account for restriction of funds. This reclassifications had no effect on the total fund balances.

REQUIRED SUPPLEMENTARY INFORMATION



EMERALD ACADEMY

**PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)**

June 30, 2021

Teacher Legacy Pension Plan

	Measurement date at June 30,			
	2020	2019	2018	2017
Proportion of the net pension liability (asset)	\$ (233,135)	\$ (279,398)	\$ (81,616)	\$ (5,504)
Proportionate share of the net pension liability (asset)	0.03%	0.03%	0.02%	0.02%
Covered employee payroll	\$ 1,027,920	\$ 911,184	\$ 812,160	\$ 594,706
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	(22.68)%	(30.66)%	(10.05)%	(.93)%
Plan fiduciary net position as a percentage of the total pension liability	103.09%	104.28%	101.49%	100.14%

See the accompanying independent accountants' audit report.

Measurement date at June 30,

2016	2015	2014
\$ 75,439	\$ 971	\$ 0
0.01%	0.00%	0.00%
\$ 435,750	\$ 88,697	\$ 0
17.31%	1.09%	0.00%
97.14%	99.81%	0.00%

EMERALD ACADEMY

**PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)**

(continued)

June 30, 2021

Teacher Retirement Plan

	Measurement date at June 30,			
	2020	2019	2018	2017
Proportion of the net pension liability (asset)	\$ (66,306)	\$ (73,957)	\$ (49,568)	\$ (27,580)
Proportionate share of the net pension liability (asset)	0.12%	0.13%	0.11%	0.10%
Covered employee payroll	\$ 1,469,689	\$ 1,386,419	\$ 969,400	\$ 640,267
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	(4.51)%	(5.33)%	(5.11)%	(4.31)%
Plan fiduciary net position as a percentage of the total pension liability	116.52%	123.07%	126.97%	126.81%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

Measurement date at June 30,

2016	2015	2014
\$ 0	\$ 0	\$ 0
0.00%	0.00%	0.00%
\$ 0	\$ 0	\$ 0
0.00%	0.00%	0.00%
0.00%	0.00%	0.00%



EMERALD ACADEMY

**PENSION CONTRIBUTIONS**

June 30, 2021

<u>Teacher Legacy Retirement Plan</u>	Year Ended June 30,			
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contributions	\$ 58,506	\$ 108,162	\$ 95,310	\$ 73,620
Contributions in relation to the actuarially determined contributions	<u>(58,506)</u>	<u>(108,162)</u>	<u>(95,310)</u>	<u>(73,620)</u>
Contributions deficiency(excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 569,674	\$ 1,027,920	\$ 911,184	\$ 810,794
Contributions as a percentage of covered employee payroll	10.27%	10.52%	10.46%	9.08%
<u>Teacher Retirement Plan</u>	Year Ended June 30,			
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 27,768	\$ 29,871	\$ 26,897	\$ 38,481
Contributions in relation to the contractually required contributions	<u>(27,768)</u>	<u>(29,871)</u>	<u>(26,897)</u>	<u>(38,481)</u>
Contributions deficiency(excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 1,374,662	\$ 1,469,689	\$ 1,386,443	\$ 962,037
Contributions as a percentage of covered employee payroll	2.02%	2.03%	1.94%	4.00%
Pension Plan Stabilization Trust contributions	\$ 27,218	\$ 28,953	\$ 28,561	\$ 0
Pension Plan Stabilization Trust contributions as a percentage of covered employee payroll	1.98%	1.97%	2.06%	0.00%

GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date. Please refer to previously supplied data from the TCRS GASB 68 website for prior year's data, if needed.

See the accompanying independent accountants' audit report.

Year Ended June 30,		
2017	2016	2015
\$ 53,761	\$ 39,392	\$ 12,910
<u>(53,761)</u>	<u>(39,392)</u>	<u>(12,910)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 594,706	\$ 435,750	\$ 142,810
9.04%	9.04%	9.04%

Year Ended June 30,		
2017	2016	2015
\$ 27,444	\$ 5,505	\$ 0
<u>(27,444)</u>	<u>(8,796)</u>	<u>0</u>
<u>\$ 0</u>	<u>\$ (3,291)</u>	<u>\$ 0</u>
\$ 686,100	\$ 219,901	\$ 0
4.00%	4.00%	0.00%

\$ 0	\$ 0	\$ 0
0.00%	0.00%	0.00%

#### Changes of Assumptions

In 2017 the following assumptions were changed: decreased inflation rate from 3% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

OTHER SUPPLEMENTARY INFORMATION

EMERALD ACADEMY

**PRINCIPAL OFFICIALS**

June 30, 2021

**Board of Directors**

Alvin Nance  
Randall Gibson  
Edwin Hedgepeth  
Janene Nordin  
Kala Gray  
Timothy McLemore  
Sanford Miller

**President**

Steve Diggs

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

**LONG-TERM DEBT REQUIREMENTS**

Year Ended June 30, 2021

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015			
Year Ending <u>June 30:</u>			
2022	\$ 0	\$ 360	\$ 360
2023	0	360	360
2024	42,925	82,736	125,660
2025	66,157	122,153	188,311
2026	68,459	119,851	188,311
2027	70,842	117,469	188,311
2028	73,307	115,004	188,311
2029	75,858	112,453	188,311
2030	78,497	109,814	188,311
2031	81,229	107,082	188,311
2032	84,055	104,255	188,311
2033	86,980	101,331	188,311
2034	90,007	98,304	188,311
2035	93,139	95,172	188,311
2036	96,380	91,931	188,311
2037	99,734	88,577	188,311
2038	103,204	85,106	188,311
2039	106,795	81,515	188,311
2040	110,512	77,799	188,311
2041	114,357	73,953	188,311
2042	118,337	69,974	188,311
2043	122,454	65,856	188,311
2044	126,716	61,595	188,311

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

**LONG-TERM DEBT REQUIREMENTS**

(continued)

Year Ended June 30, 2021

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015 (continued)			
Year Ending <u>June 30:</u>			
2045	131,125	57,186	188,311
2046	135,688	52,623	188,311
2047	140,409	47,901	188,311
2048	145,295	43,015	188,311
2049	150,351	37,960	188,311
2050	155,583	32,728	188,311
2051	160,997	27,314	188,311
2052	166,599	21,711	188,311
2053	172,397	15,914	188,311
2054	178,395	9,915	188,311
2055	148,092	3,709	151,801
	<u>\$ 3,594,875</u>	<u>\$ 2,332,628</u>	<u>\$ 5,927,503</u>

Educational Revenue Bonds,  
Series 2015B

Year Ending <u>June 30:</u>			
2022	\$ 0	\$ 50	\$ 50
2023	0	50	50
2024	5,962	11,491	17,453
2025	9,188	16,966	26,154

EMERALD ACADEMY

**LONG-TERM DEBT REQUIREMENTS**

(continued)

Year Ended June 30, 2021

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015B (continued)			
<u>Year Ending June 30:</u>			
2026	9,508	16,646	26,154
2027	9,839	16,315	26,154
2028	10,181	15,973	26,154
2029	10,536	15,618	26,154
2030	10,902	15,252	26,154
2031	11,282	14,873	26,154
2032	11,674	14,480	26,154
2033	12,081	14,074	26,154
2034	12,501	13,653	26,154
2035	12,936	13,218	26,154
2036	13,386	12,768	26,154
2037	13,852	12,302	26,154
2038	14,334	11,820	26,154
2039	14,833	11,322	26,154
2040	15,349	10,805	26,154
2041	15,883	10,271	26,154
2042	16,436	9,719	26,154
2043	17,008	9,147	26,154
2044	17,599	8,555	26,154
2045	18,212	7,942	26,154
2046	18,846	7,309	26,154
2047	19,501	6,653	26,154
2048	20,180	5,974	26,154
2049	20,883	5,272	26,154
2050	21,609	5,546	27,154
2051	22,361	3,794	26,154
2052	23,139	3,015	26,154

EMERALD ACADEMY

**LONG-TERM DEBT REQUIREMENTS**

(continued)

Year Ended June 30, 2021

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015B (continued)			
Year Ending <u>June 30:</u>			
2053	23,944	2,210	26,154
2054	24,777	1,377	26,154
2055	<u>21,280</u>	<u>515</u>	<u>21,795</u>
	<u>\$ 500,000</u>	<u>\$ 324,975</u>	<u>\$ 824,975</u>



EMERALD ACADEMY

**EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE**

Year Ended June 30, 2021

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>Assistance Listing Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>			
U.S. Department of Education/ Tennessee Department of Education	84.010	N/A	\$ 395,749
U.S. Department of Treasury/ Tennessee Department of Finance and Administration	21.019	N/A	428,883
U.S. Department of Treasury/ Tennessee Department of Education	21.019	N/A	5,000
U.S. Department of Education/ Tennessee Department of Education	84.027	N/A	<u>50,051</u>
Total Federal Awards			879,683
<u>State Financial Assistance</u>			
Tennessee Department of Education	N/A	N/A	17,674
Tennessee Department of Education	N/A	N/A	<u>25,141</u>
Total State Financial Assistance			<u>42,815</u>
			<u><u>\$ 922,498</u></u>

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

**EXPENDITURES OF FEDERAL AWARDS**  
**AND STATE FINANCIAL ASSISTANCE**

(continued)

Year Ended June 30, 2021

**NOTE 1 - BASIS OF PRESENTATION**

This schedule summarizes the expenditures of Emerald Academy under programs of the federal government for the year ended June 30, 2020. The schedule is presented using the accrual basis of accounting. Because this schedule presents only a selected portion of the operations of the Academy, it is not intended and does not present the net position or changes in net position of the Academy.

**NOTE 2 - INDIRECT COST RATE**

Emerald Academy has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 3 - OUTSTANDING LOAN BALANCE**

Emerald Academy had no outstanding balances on federal loans at June 30, 2021.

INTERNAL CONTROL

AND

COMPLIANCE

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Emerald Charter Schools  
Knoxville, Tennessee

We have audited, in accordance with the 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 of America, the financial statements of the governmental activities and each major fund of Emerald Academy, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Emerald Academy's basic financial statements, and have issued our report thereon dated January 27, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Emerald Academy's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emerald Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Emerald Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Emerald Academy's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Emerald Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Emerald Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Emerald Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mitchell Emert + Hill*

January 27, 2022

EMERALD ACADEMY

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

Year Ended June 30, 2021

There were no findings reported in the prior year.

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Emerald Academy  
Knoxville, Tennessee

**Report on Compliance for Each Major Federal Program**

We have audited Emerald Academy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect of Emerald Academy's major federal programs for the year ended June 30, 2021. Emerald Academy's major federal program are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for Emerald Academy's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements; Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Emerald Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Emerald Academy's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Emerald Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2021.

### **Report on Internal Control Over Compliance**

Management of Emerald Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Emerald Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Emerald Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Mitchell Emert & Hill*

January 27, 2022



EMERALD ACADEMY

**FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2021

**SUMMARY OF AUDIT RESULTS**

1. The Independent Accountants' Audit Report expresses an unmodified opinion on the financial statements of Emerald Academy.
2. No significant deficiencies in internal control over financial reporting were disclosed.
3. No instances of noncompliance material to the financial statements were disclosed.
4. No significant deficiencies in internal control over major federal programs were disclosed.
5. The Independent Accountants' Report on Compliance for Each Major Program and on Internal Control Over Compliance As Required by the Uniform Guidance expresses an unmodified opinion on Emerald Academy's compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its major federal programs.
6. No findings or questioned costs were disclosed which would be required to be reported in accordance with the Uniform Guidance.
7. The following programs were tested as major programs:

<u>Program Name</u>	<u>Assistance Listing Number</u>
Coronavirus Relief Fund	21.019

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Emerald Academy was not determined to be a low-risk auditee.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No findings or questioned costs were disclosed which would be required to be reported in accordance with the Uniform Guidance.