

Financial Statements

EMERALD CHARTER SCHOOLS
EMERALD ACADEMY

Year Ended June 30, 2022

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Directors
Emerald Charter Schools
Knoxville, Tennessee

Report on the Audit of the Financial Statements

Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise Emerald Academy's basic financial statements as listed in the table of contents.

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, 2022 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Emerald Academy and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Emerald Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the 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 audit.
- Identify and assess the risks of material misstatement of the 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 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 Emerald Academy's 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Emerald Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 to 9, the schedule of proportionate share of the net pension liability (asset) on pages 45 to 48 and the schedule of pension contributions on pages 49 to 50 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.

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 supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The schedules of long-term debt requirements, lease obligations, principal and interest requirements by fiscal year and expenditures of federal awards 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.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the schedule of principal officials but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 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.

Mitchell Emert + Hill

December 14, 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, 2022 as compared to the fiscal year ended June 30, 2021. 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, 2022 by \$2,558,291 (\$2,270,045 at June 30, 2021).
- The Academy's net position increased by \$288,246 during the year ended June 30, 2022 (\$1,318,386 in 2021).
- During the year ended June 30, 2022, total revenues of \$5,598,771 were comprised of federal, state and local funds of approximately 86% and charitable giving and other of approximately 14%. During the year ended June 30, 2021, total revenues of \$6,290,913 were comprised of state funds of approximately 80% and charitable giving and other of approximately 20%.

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 10, 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 and deferred outflows of resources less total liabilities and deferred inflows of resources. 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 12), 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, 2022 by \$2,558,291 (\$2,270,045 at June 30, 2021). At June 30, 2022 the Academy’s assets included \$1,480,927 in cash and accounts receivable. At June 30, 2021 the Academy’s assets included \$1,563,853 of cash and accounts receivable. As of June 30, 2022, the Academy had invested \$4,765,414 (\$4,901,361 at June 30, 2021) 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, 2022 the Academy had debt in the amount of \$4,157,197 (\$4,100,000 at June 30, 2021), which was used to fund certain capital purchases and improvements. See Note I and K to the financial statements for further information.

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

	<u>2022</u>	<u>2021</u>
Current assets	\$ 1,496,878	\$ 1,593,407
Net pension asset	860,821	299,441
Restricted assets	122,007	98,761
Capital assets	<u>4,765,414</u>	<u>4,901,361</u>
Total assets	7,245,120	6,892,970

Deferred outflows of resources	404,080	214,391
Current liabilities	(190,134)	(589,381)
Noncurrent liabilities	<u>(4,135,927)</u>	<u>(4,094,875)</u>
Total liabilities	(4,326,061)	(4,684,256)
Deferred inflows of resources	<u>(764,848)</u>	<u>(153,059)</u>
	<u>\$ 2,558,291</u>	<u>\$ 2,270,045</u>
Net position:		
Net investment in capital assets	\$ 608,217	\$ 806,486
Restricted	1,080,363	676,078
Unrestricted	<u>869,711</u>	<u>787,481</u>
Total net position	<u>\$ 2,558,291</u>	<u>\$ 2,270,045</u>

During the year ended June 30, 2022, total net position increased \$288,246 (1,318,386 during 2021). The increase in the change in net position for the year ended June 30, 2022 as compared to the change in net position for the year ended June 30, 2021 is mostly due to the forgiveness of the Paycheck Protection Program loan in the prior year.

At June 30, 2022 unrestricted net position of the Academy was \$869,711 (\$787,481 at June 30, 2021). A schedule of the Academy's entity-wide revenue and expenses for the period ended June 30 is as follows.

	<u>2022</u>	<u>2021</u>
Revenue:		
Operating grants and contributions	\$ 5,588,542	\$ 5,527,547
Fees, fines and charges for service	3,773	553
Paycheck Protection Program loan forgiveness	0	745,527
Interest income	<u>6,456</u>	<u>17,286</u>
Total revenue	5,598,771	6,290,913
Expenses:		
Employee compensation	3,089,657	2,937,529
Employee benefits	619,967	683,793
Depreciation	201,699	183,763
Contracted services	571,037	559,682
Supplies and materials	770,148	549,971
Staff development	22,043	7,829
Other charges	30,772	46,687
Interest expense	<u>5,203</u>	<u>3,273</u>
Total expenses	<u>5,310,525</u>	<u>4,972,527</u>
Change in net position	<u>\$ 288,246</u>	<u>\$ 1,318,386</u>

CAPITAL ASSETS

The Academy’s investment in capital assets as of June 30, 2022 was \$4,765,414 (\$4,901,361 in 2021) net of accumulated depreciation.

	<u>2022</u>	<u>2021</u>
Land	\$ 110,000	\$ 110,000
Buildings	5,152,972	5,152,972
Land improvements	72,214	72,214
Furniture and fixtures	117,672	117,672
Computers and computer equipment	61,864	61,864
General equipment	385,393	385,393
Leased equipment	65,752	0
Accumulated depreciation	<u>(1,200,453)</u>	<u>(998,754)</u>
	<u>\$ 4,765,414</u>	<u>\$ 4,901,361</u>

There were no major capital asset additions during the year ended June 30, 2022. Additional information on capital assets can be found in Note D to the financial statements.

DEBT ADMINISTRATION

At June 30, 2022 the Academy had outstanding long-term debt of \$4,100,000 (\$4,094,875 in 2021) consisting of Education Revenue Bonds. There is no current portion due and the Academy did not retire any of its long-term debt during the year ended June 30, 2022 or 2021.

At June 30, 2022 the Academy had outstanding long-term leases of \$57,197 (\$0 in 2021) consisting of the following:

Copier lease	\$ 57,197	\$ 0
Less: current portion due	<u>(21,270)</u>	<u>(0)</u>
Total long-term lease-principal	<u>\$ 35,927</u>	<u>\$ 0</u>

During the year ended June 30, 2022, the Academy retired \$8,555 (\$0 in 2021) of its long-term leases. Additional information on debt administration can be found in Note I and K to the financial statements.

FINANCIAL ANALYSIS OF THE ACADEMY’S FUNDS

The Academy’s funds, as presented on the balance sheet on page 12, reported combined fund balances of \$1,400,022 at June 30, 2022. A combined fund balance of \$1,002,786 was reported on the balance sheet at June 30, 2021, 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 13 and 16 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, 2022

ASSETS

Cash and cash equivalents	\$ 1,143,343
Accounts receivable	337,584
Prepaid expenses	15,952
Net pension asset	860,821
Capital assets not being depreciated	110,000
Capital assets being depreciated net of accumulated depreciation	<u>4,655,414</u>
	7,123,112

RESTRICTED CASH

Pension trust contributions	122,007
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	<u>404,080</u>
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\$ 7,649,200

LIABILITIES

Accounts payable	\$ 39,724
Accrued salaries	129,140
Current portion of long-term leases	21,270
Long-term leases, net of current portion	35,927
Long-term debt	<u>4,100,000</u>
	4,326,061

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	764,848
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NET POSITION

Net investment in capital assets	\$ 608,217	
Restricted	1,080,363	
Unrestricted	<u>869,711</u>	<u>2,558,291</u>
		<u><u>\$ 7,649,200</u></u>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

		<u>Program Revenue</u>		<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenue and Change In Net Position</u>
				<u>Totals</u>
Governmental Activities:				
Education	\$ 5,310,525	\$ 3,773	\$ 5,588,542	\$ 281,790
General Revenue:				
Interest income				<u>6,456</u>
				CHANGE IN NET POSITION
				288,246
NET POSITION AT THE BEGINNING OF THE YEAR				<u>2,270,045</u>
				NET POSITION AT THE END OF THE YEAR
				<u><u>\$ 2,558,291</u></u>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2022

	<u>General Purpose School Fund</u>	<u>Federal Project Fund</u>	<u>Capital Project Fund</u>	<u>Totals</u>
ASSETS				
Cash	\$ 1,112,453	\$ 0	\$ 30,890	\$ 1,143,343
Accounts receivable	337,584	0	0	337,584
Due from other funds	27,006	0	0	27,006
Prepaid expenses	15,952	0	0	15,952
	<u>1,492,994</u>	<u>0</u>	<u>30,890</u>	<u>1,523,884</u>
RESTRICTED ASSET				
Pension trust contributions	<u>122,007</u>	<u>0</u>	<u>0</u>	<u>122,007</u>
	<u>\$ 1,615,001</u>	<u>\$ 0</u>	<u>\$ 30,890</u>	<u>\$ 1,645,891</u>
LIABILITIES				
Accounts payable	\$ 39,724	\$ 0	\$ 0	\$ 39,724
Due to other funds	0	0	27,006	27,006
Deferred revenue	50,000	0	0	50,000
Accrued salaries	129,140	0	0	129,140
	<u>218,864</u>	<u>0</u>	<u>27,006</u>	<u>245,870</u>
FUND BALANCES				
Nonspendable	15,952	0	0	15,952
Restricted	215,658	0	3,884	219,542
Unassigned	1,164,528	0	0	1,164,528
	<u>1,396,137</u>	<u>0</u>	<u>3,884</u>	<u>1,400,022</u>
	<u>\$ 1,615,001</u>	<u>\$ 0</u>	<u>\$ 30,890</u>	<u>\$ 1,645,891</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, 2022

Total Fund Balance - Governmental Funds	\$ 1,400,022
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.	4,765,414
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	860,821
Deferred outflows of resources	404,080
Deferred inflows of resources	(764,848)
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.	50,000
Long-term liabilities are not due in the current period; therefore, they are not reported in the governmental funds balance sheet.	<u>(4,157,197)</u>
Net Position of Governmental Activities	<u>\$ 2,558,291</u>

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, 2022

	<u>General Purpose School Fund</u>	<u>Federal Project Fund</u>	<u>Capital Project Fund</u>	<u>Totals</u>
REVENUE				
Contributions	\$ 856,809	\$ 0	\$ 0	\$ 856,809
Federal, state and local funds	4,268,496	508,150	0	4,776,645
Interest	11,578	0	3	11,581
Revenue - internal school funds	5,088	0	0	5,088
Other income	<u>3,773</u>	<u>0</u>	<u>0</u>	<u>3,773</u>
TOTAL REVENUE	5,145,744	508,150	3	5,653,896
EXPENDITURES				
Current:				
Personal services	2,614,719	474,938	0	3,089,657
Employee benefits	726,035	33,212	0	759,247
Contracted services	567,768	0	3,269	571,037
Supplies and materials	764,634	0	0	764,634
Staff development	22,043	0	0	22,043
Expenditures - internal schools funds	5,514	0	0	5,514
Other charges	30,772	0	0	30,772
Capital outlay	65,752	0	0	65,752
Debt service	<u>13,758</u>	<u>0</u>	<u>0</u>	<u>13,758</u>
TOTAL EXPENDITURES	<u>4,810,994</u>	<u>508,150</u>	<u>3,269</u>	<u>5,322,413</u>
NET CHANGES IN FUND BALANCES BEFORE OTHER FINANCING SOURCES				
	334,749	0	(3,266)	331,483

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, 2022

	<u>General Purpose School Fund</u>	<u>Federal Project Fund</u>	<u>Capital Project Fund</u>	<u>Totals</u>
OTHER FINANCING SOURCES				
Proceeds from issuance of long-term leases	<u>65,752</u>	<u>0</u>	<u>0</u>	<u>65,752</u>
CHANGES IN FUND BALANCES	400,501	0	(3,266)	397,235
FUND BALANCES AT THE BEGINNING OF THE YEAR	<u>995,636</u>	<u>0</u>	<u>7,150</u>	<u>1,002,786</u>
FUND BALANCES AT THE END OF THE YEAR	<u>\$ 1,396,137</u>	<u>\$ 0</u>	<u>\$ 3,884</u>	<u>\$ 1,400,022</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, 2022

Changes in Fund Balances	\$ 397,235
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:	
Acquisition of capital assets	65,752
Depreciation expense	(201,699)
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:	
Deferred pledge revenue - June 30, 2021	(100,000)
Deferred pledge revenue - June 30, 2022	50,000
Repayment of long-term liabilities is an expenditure in the governmental funds, but reduces long-term liabilities for governmental funds	8,555
Long-term liabilities provide current financial resources in the governmental funds, but the issuance of debt increases long-term obligations for governmental activities	(65,752)
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	58,050
Retirement contributions made after the actuarial measurement date are not expenditures in the governmental funds, but increase deferred outflows for governmental activities	<u>76,105</u>
Change in Net Position of Governmental Activities	<u>\$ 288,246</u>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2022

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, 2022

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, 2022 has been calculated as follows:

Capital assets	\$ 5,965,867
Accumulated depreciation	(1,200,453)
Long-term lease	(57,197)
Bonds payable	<u>(4,100,000)</u>
	<u>\$ 608,217</u>

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

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, 2022

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 \$10,000 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, 2022 was \$201,699.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

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 Trustees. 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, 2022

NOTE C - CASH AND INVESTMENTS

Cash and investments are stated at cost, which approximates market value. Carrying amounts at June 30, 2022 were as follows:

Cash on hand	\$ 335
Cash in bank	<u>1,143,008</u>
Total	<u>\$ 1,143,343</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, 2022 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, 2022

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.

Investment Balances

Assets of the TCRS, including the Stabilization Reserve Trust, are invested in the Tennessee Retiree Group Trust (TRGT). The TRGT is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State of Tennessee has not obtained a credit quality rating for the TRGT from a nationally recognized credit ratings agency. The fair value of investment positions in the TRGT is determined daily based on the fair value of the pool's underlying portfolio. Furthermore, TCRS had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year. There are no restrictions on the sale or redemption of shares.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on a trade-date basis. The fair value of assets of the TRGT held at June 30, 2022, represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date.
- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; assets or liabilities that have a bid-ask spread price in an inactive dealer market, brokered market and principal-to-principal market; and Level 1 assets or liabilities that are adjusted.
- Level 3 - Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments where fair value is measured using the Net Asset Value (NAV) per share have no readily determinable fair value and have been determined to be calculated consistent with Financial Accounting Standards Board principles for investment companies.

Where inputs used in the measurement of fair value fall into different levels of the hierarchy, fair value of the instrument in its entirety is categorized based on the lowest level input that is significant to the valuation. This assessment requires professional judgement and as such management of the TRGT developed a fair value committee that worked in conjunction with the plan's custodian and investment professionals to make these valuations. All assets held were valued individually and aggregated into classes to be represented in the table below.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

Equity and equity derivative securities classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities. Equity securities classified in Level 3 are valued with last trade data having limited trading volume.

U.S. Treasury Bills, Bonds, Notes and Futures classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Debt and debt derivative securities classified in Level 2 are valued using a bid-ask spread price from multiple independent brokers, dealers, or market principals, which are known to be actively involved in the market. Level 3 debt securities are valued using proprietary information, a single pricing source, or other unobservable inputs related to similar assets or liabilities.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

Real estate investments classified in Level 3 are valued using the last valuations provided by external investment advisors or independent external appraisers. Generally, all direct real estate investments are appraised by a qualified independent appraiser(s) with the professional designation of Member of the Appraisal Institute, or its equivalent, every three (3) years beginning from the acquisition date of the property. The appraisals are performed using generally accepted valuation approaches applicable to the property type.

Investments in private mutual funds, traditional private equity funds, strategic lending funds and real estate funds that report using Generally Accepted Accounting Principles, the fair value, as well as the unfunded commitments, were determined using the prior quarter's NAV, as reported by the fund managers, plus the current cash flows. These assets were then categorized by investment strategy. In instances where the fund investment reported using non-GAAP standards, the investment was valued using the same method, but was classified in Level 3.

At June 30, 2022 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%	\$ 37,822
Developed market international equity	14	17,081
Emerging market international equity	4	4,880
Private equity and strategic lending	20	24,401
U.S. fixed income	20	24,401
Real estate	10	12,201
Short-term securities	<u>1</u>	<u>1,220</u>
	<u>100%</u>	<u>\$ 122,007</u>

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

Investment by Fair Value Level	Fair Value 6/30/22	Fair Value Measurements Using			Amortized Cost
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV
U.S. equity	\$ 37,822	\$ 37,822	\$ 0	\$ 0	\$ 0
Developed market					
international equity	17,081	17,081	0	0	0
Emerging market					
international equity	4,880	4,880	0	0	0
U.S fixed income	24,401	0	24,401	0	
Real estate	12,201	0	0	12,201	0
Short-term securities	1,220	0	1,220	0	0
Private equity and strategic lending	<u>24,401</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>24,401</u>
Totals	<u>\$ 122,007</u>	<u>\$ 59,783</u>	<u>\$ 25,621</u>	<u>\$ 12,201</u>	<u>\$ 24,401</u>

Risks and Uncertainties

The Trust's investments include various types of investment funds, which in turn invest in any combination of stock, bonds and other investments exposed to various risks, such as interest rate, credit, and market risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported for the Trust investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Academy does not have the ability to limit Trust investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Academy does not have the ability to limit the credit ratings of individual investments made by the trust.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer. The Academy places no limit on the amount the Academy may invest in one issuer.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Pursuant to the Trust agreement, investments are held in the name of the Trust for the benefit of the Academy to pay retirement benefits of the Academy employees.

Further information concerning the Academy's investments with the TCRS Stabilization Reserve Trust can be located in the audited financial statements of the Tennessee Consolidated Retirement System.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022 was as follows:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2022</u>
<u>Capital assets not</u> <u>being depreciated</u>				
Land	\$ 110,000	\$ 0	\$ 0	\$ 110,000
<u>Capital assets</u> <u>being depreciated</u>				
Buildings	5,152,972	0	0	5,152,972
Land improvements	72,214	0	0	72,214
Furniture	117,672	0	0	117,672
Lease equipment	0	65,752	0	65,752
Equipment	<u>447,257</u>	<u>0</u>	<u>0</u>	<u>447,257</u>
	5,790,115	65,752	0	5,855,867
<u>Accumulated depreciation</u>				
Buildings	(686,758)	(133,793)	0	(820,551)
Land improvements	(12,667)	(3,611)	0	(16,278)
Furniture	(69,433)	(11,767)	0	(81,200)
Leased equipment	0	(8,555)	0	(8,555)
Equipment	<u>(229,896)</u>	<u>(43,973)</u>	<u>0</u>	<u>(273,869)</u>
	<u>(998,754)</u>	<u>(201,699)</u>	<u>0</u>	<u>(1,200,453)</u>
	<u>\$ 4,901,361</u>	<u>\$ (135,947)</u>	<u>\$ 0</u>	<u>\$ 4,765,414</u>

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

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

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, 2022

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 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, 2022 to the Teachers Legacy Pension Plan were \$47,127 which is 10.30% 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, 2022 the Academy reported an asset of \$752,803 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, 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, 2021 the Academy's proportion was 0.017453%. The proportion measured as of June 30, 2020 was 0.030572%.

Negative Pension Expense

For the year ended June 30, 2022, the Academy recognized negative pension expense of \$74,562.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2022, 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	\$ 2,530	\$ 62,786
Changes in assumptions	201,136	0
Net difference between projected and actual earnings on pension plan investments	0	600,343
Changes in proportion of net pension liability(asset)	69,727	6,278
Contributions subsequent to the measurement date of June 30, 2021	<u>47,127</u>	<u>not applicable</u>
	<u>\$ 320,520</u>	<u>\$ 669,407</u>

The Academy's employer contributions of \$47,127, 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, 2023. 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:

2023	\$ (86,150)
2024	(84,816)
2025	(63,034)
2026	(162,015)
2027	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, 2022

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-Living adjustment	2.125%

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

The actuarial assumptions used in the June 30, 2021 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016 through June 30, 2020. As a result of the 2020 actuarial experience study, investment and 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, 2020 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 2.25%.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

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	4.88%	31.00%
Developed market international equity	5.37	14.00
Emerging market international equity	6.09	4.00
Private equity and strategic lending	6.57	20.00
U.S. fixed income	1.20	20.00
Real estate	4.38	10.00
Short-term securities	0.00	1.00
		<u>100.00%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the future capital market projections, historical market returns and expected inflation rate, as described above.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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, 2022

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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Proportionate share of the net pension liability (asset)	\$ (133,974)	\$ (752,803)	\$ (1,267,792)

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, 2022

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.

Pension Assets(Liabilities) and Pension Income(Expense)

At June 30, 2022, the Academy reported an asset of \$108,018 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, 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, 2021 the Academy's proportion was .099720%. The proportion measured as of June 30, 2020 was .116605%.

Pension Expense

For the year ended June 30, 2022, the Academy recognized pension expense of \$13,016.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

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, 2022 to the Teacher Retirement Plan were \$28,978, which is 2.02% 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.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2022, the Academy reported the following deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,879	\$ 19,765
Net difference between projected and actual earnings on pension plan investments	0	62,178
Changes in assumptions	38,961	0
Changes in proportion of net pension liability(asset)	13,742	13,498
Contributions subsequent to the measurement date of June 30, 2021	<u>28,978</u>	<u>not applicable</u>
	<u>\$ 83,560</u>	<u>\$ 95,441</u>

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

The Academy's employer contributions of \$29,400, 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, 2023. 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:

2023	\$ (13,758)
2024	(13,418)
2025	(13,321)
2026	(14,886)
2027	1,699
Thereafter	12,825

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

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-Living adjustment	2.125%

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

The actuarial assumptions used in the June 30, 2021 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016 through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

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, 2020 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 2.25%.

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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	4.88%	31.00%
Developed market international equity	5.37	14.00
Emerging market international equity	6.09	4.00
Private equity and strategic lending	6.57	20.00
U.S. fixed income	1.20	20.00
Real estate	4.38	10.00
Short-term securities	0.00	1.00
		<u>100.00%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the future capital market projections, historical market returns and expected inflation rate, as described above.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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, 2022

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 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) 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)	\$ 37,134	\$ (108,018)	\$ (215,072)

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, 2022

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 \$60,409 for the year ended June 30, 2022.

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 \$76,645 for the year ended June 30, 2022.

NOTE G - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2022, the Academy paid \$156,000 to Emerald Youth Foundation for administrative assistance. Additionally, one of Emerald Charter School's board members is 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, 2022

NOTE H - 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 I - LONG-TERM DEBT

Long-term debt at June 30, 2022 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	\$ 3,600,000
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	<u>500,000</u>
	<u>\$ 4,100,000</u>

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 2023. No line of credit had an outstanding balance as of June 30, 2022.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

Maturities of long-term debt as of June 30, 2022 are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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	37,273	214,465

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

<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>174,497</u>	<u>4,224</u>	<u>178,721</u>
Totals	<u>\$ 4,100,000</u>	<u>\$ 2,657,193</u>	<u>\$ 6,757,193</u>

Changes in short-term and long-term debt for the year ended June 30, 2022 were as follows:

	<u>Balance 7/1/21</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance 6/30/22</u>	<u>Amounts Due Within One Year</u>
<u>Short-Term</u>					
Emerald Youth Foundation note payable	<u>\$ 300,000</u>	<u>\$ 0</u>	<u>\$ 300,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Long-Term</u>					
Educational Revenue Bonds, Series 2015	\$ 3,600,000	\$ 0	\$ 0	\$ 3,600,000	\$ 0
Educational Revenue Bonds, Series 2015 2015B	<u>500,000</u>	<u>0</u>	<u>0</u>	<u>500,000</u>	<u>0</u>
	<u>\$ 4,100,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,100,000</u>	<u>\$ 0</u>

Interest costs incurred during the year ended June 30, 2022 were \$5,203, none of which was capitalized.

Long-term debt balances of \$4,094,875 at June 30, 2021 were restated to \$4,100,000 to correct the beginning balance.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2022

NOTE J - RESTRICTED NET POSITION

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

Time restrictions	\$ 71,310
Restricted for capital projects	3,871
Library	7,245
Tutoring	11,619
Other	3,490
Pension trust contributions	122,007
Restricted for pension	<u>860,821</u>
	<u>\$ 1,080,363</u>

NOTE K - LONG-TERM LEASES

Long-term leases at June 30, 2022 consisted of the following:

Copier Lease, imputed interest rate of 5.0% maturing monthly in principal payments of \$1,971 through 2025	\$ 57,197
Less current maturities	<u>(21,270)</u>
	<u>\$ 35,927</u>

This lease is renewable and the Academy does not plan on acquiring the equipment at the end of the lease.

Maturities of long-term leases are as follows:

<u>Year Ending</u> <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 21,270	\$ 2,377	\$ 23,647
2024	22,359	1,287	23,646
2025	<u>13,568</u>	<u>228</u>	<u>13,796</u>
	<u>\$ 57,197</u>	<u>\$ 3,892</u>	<u>\$ 61,089</u>

REQUIRED SUPPLEMENTARY INFORMATION

EMERALD ACADEMY

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

June 30, 2022

Teacher Legacy Pension Plan

	Measurement date at June 30,			
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net pension liability (asset)	\$ (752,803)	\$ (233,135)	\$ (279,398)	\$ (81,616)
Proportionate share of the net pension liability (asset)	0.02%	0.03%	0.03%	0.02%
Covered employee payroll	\$ 572,847	\$ 1,027,920	\$ 911,184	\$ 812,160
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	(131.41)%	(22.68)%	(30.66)%	(10.05)%
Plan fiduciary net position as a percentage of the total pension liability	116.13%	103.09%	104.28%	101.49%

See the accompanying independent accountants' audit report.

	Measurement date at June 30,			
<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	
\$ (5,504)	\$ 75,439	\$ 971	\$ 0	
0.02%	0.01%	0.00%	0.00%	
\$ 594,706	\$ 435,750	\$ 88,697	\$ 0	
(.93)%	17.31%	1.09%	0.00%	
100.14%	97.14%	99.81%	0.00%	

EMERALD ACADEMY

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

(continued)

June 30, 2022

Teacher Retirement Plan

	Measurement date at June 30,			
	2021	2020	2019	2018
Proportion of the net pension liability (asset)	\$ (108,018)	\$ (66,306)	\$ (73,957)	\$ (49,568)
Proportionate share of the net pension liability (asset)	0.10%	0.12%	0.13%	0.11%
Covered employee payroll	\$ 1,439,174	\$ 1,469,689	\$ 1,386,419	\$ 969,400
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	(7.51)%	(4.51)%	(5.33)%	(5.11)%
Plan fiduciary net position as a percentage of the total pension liability	121.53%	116.52%	123.07%	126.97%

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 years' data, if needed.

	Measurement date at June 30,			
<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	
\$ (27,580)	\$ 0	\$ 0	\$ 0	
0.10%	0.00%	0.00%	0.00%	
\$ 640,267	\$ 0	\$ 0	\$ 0	
(4.31)%	0.00%	0.00%	0.00%	
126.81%	0.00%	0.00%	0.00%	

EMERALD ACADEMY

PENSION CONTRIBUTIONS

June 30, 2022

<u>Teacher Legacy Retirement Plan</u>	Year Ended June 30,			
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Actuarially determined contributions	\$ 47,127	\$ 58,506	\$ 108,162	\$ 95,310
Contributions in relation to the actuarially determined contributions	<u>(47,127)</u>	<u>(58,506)</u>	<u>(108,162)</u>	<u>(95,310)</u>
Contributions deficiency(excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 457,547	\$ 569,674	\$ 1,027,920	\$ 911,184
Contributions as a percentage of covered employee payroll	10.30%	10.27%	10.52%	10.46%
 <u>Teacher Retirement Plan</u>				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contributions	\$ 29,400	\$ 29,071	\$ 29,871	\$ 26,897
Contributions in relation to the contractually required contributions	<u>(29,400)</u>	<u>(29,071)</u>	<u>(29,871)</u>	<u>(26,897)</u>
Contributions deficiency(excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 1,453,955	\$ 1,439,174	\$ 1,469,689	\$ 1,386,443
Contributions as a percentage of covered employee payroll	2.02%	2.02%	2.03%	1.94%
Pension Plan Stabilization Trust contributions	\$ 28,978	\$ 28,496	\$ 28,953	\$ 28,561
Pension Plan Stabilization Trust contributions as a percentage of covered employee payroll	1.98%	1.98%	1.97%	2.06%

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 years' data, if needed.

See the accompanying independent accountants' audit report.

2018	Year Ended June 30,		2015
	2017	2016	
\$ 73,620	\$ 53,761	\$ 39,392	\$ 12,910
<u>(73,620)</u>	<u>(53,761)</u>	<u>(39,392)</u>	<u>(12,910)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 810,794	\$ 594,706	\$ 435,750	\$ 142,810
9.08%	9.04%	9.04%	9.04%

2018	Year Ended June 30,		2015
	2017	2016	
\$ 38,481	\$ 27,444	\$ 5,505	\$ 0
<u>(38,481)</u>	<u>(27,444)</u>	<u>(8,796)</u>	<u>0</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (3,291)</u>	<u>\$ 0</u>
\$ 962,037	\$ 686,100	\$ 219,901	\$ 0
4.00%	4.00%	4.00%	0.00%
\$ 0	\$ 0	\$ 0	\$ 0
0.00%	0.00%	0.00%	0.00%

Changes of Assumptions

In 2021, the following assumptions were changed: decreased inflation rate from 2.50% to 2.25%; decreased the investment rate of return from 7.25% to 6.75%; decreased the cost-of-living adjustment from 2.25% to 2.125%; and modified mortality 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.

SUPPLEMENTARY INFORMATION

EMERALD ACADEMY

LONG-TERM DEBT REQUIREMENTS

Year Ended June 30, 2022

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015			
Year Ending <u>June 30:</u>			
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, 2022

	<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	153,217	3,709	156,926
	<u>\$ 3,600,000</u>	<u>\$ 2,332,268</u>	<u>\$ 5,932,268</u>

Educational Revenue Bonds,
Series 2015B

Year Ending <u>June 30:</u>			
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, 2022

	<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, 2022

	<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>\$ 324,925</u>	<u>\$ 824,925</u>

EMERALD ACADEMY

**LEASE OBLIGATIONS, PRINCIPAL AND
INTEREST REQUIREMENTS BY FISCAL YEAR**

June 30, 2022

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Copier Lease			
Year Ending <u>June 30:</u>			
2023	\$ 21,270	\$ 2,377	\$ 23,647
2024	22,359	1,287	23,646
2025	<u>13,568</u>	<u>228</u>	<u>13,796</u>
	<u>\$ 57,197</u>	<u>\$ 3,892</u>	<u>\$ 61,089</u>

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>Assistance Listing Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
U.S. Department of Education/ Tennessee Department of Education	84.010	N/A	\$ 508,150
U.S. Department of Education/ Tennessee Department of Education	84.027	N/A	<u>70,839</u>
			<u><u>\$ 578,989</u></u>

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, 2022. The schedule is presented using the accrual basis of accounting. Because this schedule presents only a selected portion of the operations of Emerald Academy, it is not intended and does not present the net position or changes in net position of Emerald 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, 2022.

See the accompanying independent accountants' audit report.

OTHER INFORMATION

EMERALD ACADEMY

PRINCIPAL OFFICIALS

June 30, 2022

Board of Directors

Alvin Nance
Randall Gibson
Edwin Hedgepeth
Janene Nordin
Kala Gray
Timothy McLemore
Robert Hill
Nicole Lattimore
Sanford Miller

President

Steve Diggs

See the accompanying independent accountants' audit report.

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, 2022, and the related notes to the financial statements, which collectively comprise Emerald Academy's basic financial statements, and have issued our report thereon dated December 14, 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.

A handwritten signature in black ink that reads "Mitchell Emert & Hill". The signature is written in a cursive, flowing style.

December 14, 2022

EMERALD ACADEMY

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2022

There were no findings reported in the prior year.