

Financial Statements

EMERALD CHARTER SCHOOLS
EMERALD ACADEMY

Year Ended June 30, 2015

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Directors
Emerald Charter Schools
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Emerald Academy as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Emerald Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Emerald Academy as of June 30, 2015 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 to 7 and the schedule of pension contributions on page 27 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other information we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 information listed in the table of contents as other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedules of long-term debt requirements 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.

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2016 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 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 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

February 5, 2016

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, 2015. There was no activity in the prior year, therefore, comparative information is not provided. Comparative information will be provided in future years. 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 by \$1,661,736.
- Net position increased \$1,661,736 during the period.
- Total revenues of \$2,214,563 were comprised of state funds of approximately 6% and charitable giving and other of approximately 94%. The Academy is expected to become largely self-sustaining within a couple of years of operation.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REPORTING THE ENTITY AS A WHOLE

The Statement of Net Position and Statement of Activities:

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

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

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

REPORTING THE ENTITY'S FUNDS

Fund Financial Statements:

The Academy's fund financial statements (beginning on page 10), which includes the balance sheet and the statement of revenue, expenditures and changes in fund balances, provide information about the general purpose school fund (or operating fund) 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, 2015 by \$1,661,736. The Academy's assets included \$341,697 of cash (available to meet both ongoing and construction activities) and \$2,548,139 of unspent bond proceeds. As of June 30, 2015, the Academy had invested \$3,613,696 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, 2015 the Academy had debt in the amount of \$3,762,861, which was used to fund certain capital purchases and improvements. See Note G to the financial statements for further information.

A schedule of the Academy's net position as of June 30, 2015, is as follows:

Current assets	\$ 2,949,137
Capital assets	<u>3,613,696</u>
Total assets	6,562,833
Deferred outflow of resources	12,910
Current liabilities	(1,314,007)
Noncurrent liabilities	<u>(3,600,000)</u>
Total liabilities	<u>(4,914,007)</u>
Net position:	<u>\$ 1,661,736</u>
Net investment in capital assets	\$ 1,436,398
Restricted for sports	5,000
Unrestricted	<u>220,338</u>
Total net position	<u>\$ 1,661,736</u>

The Academy had deferred outflows of resources totaling \$12,910 and no deferred inflows of resources at June 30, 2015. The total net position increased \$1,661,736 during the period which indicates that the Academy had more incoming revenue than outgoing expenses. Total revenue generated from government grants, foundation grants and donations were \$2,210,300 during the year ended June 30, 2015. The overall increase in net position was expected since the Academy's revenue was properly budgeted to cover expenses during the year ended June 30, 2015, and contributions from private donors were received to make up for any shortfall from other revenue. At June 30, 2015 the unrestricted net position of the Academy was \$220,338. A schedule of the Academy's entity-wide revenue and expenses for the period ended June 30, 2015 is as follows.

Revenue:		
State grants		\$ 125,000
Contributions		2,085,300
Other		<u>4,263</u>
	Total revenue	2,214,563
Expenses:		
Employee compensation		142,810
Employee benefits		36,269
Depreciation		217
Contracted services		254,906
Supplies and materials		77,218
Staff development		4,779
Other charges		35,283
Interest expense		<u>1,345</u>
	Total expenses	<u>552,827</u>
Change in net position		<u>\$ 1,661,736</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The Academy's funds, as presented on the balance sheet on page 10, reported a combined fund balance of \$1,635,131, the majority of which reside in the capital projects fund. Differences between the amounts reported within the Academy's funds and those reported as the Academy's entity-wide financial statements are due to the different basis of accounting as discussed earlier (see page 11 and 14 for the reconciliation of amounts) and are largely due to the accounting for capital assets and related debt.

ACADEMY ACTIVITIES

The Academy was founded to provide free, sustainable, high quality public schools in Knoxville's urban neighborhoods. Authorized by the Knox County Board of Education, Emerald Academy opened with an inaugural class of 120 kindergarten and first grade scholars in Fall 2015. Grade levels will be added over the next several years such that the Academy will eventually educate kindergarten through eighth grade scholars, fully enrolled by Fall 2019. 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 Ron McPherson, Chief Financial Officer Emerald Service Bureau, by telephone at (865) 637-3227.

EMERALD ACADEMY

STATEMENT OF NET POSITION

June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 341,697
Unspent bond proceeds	2,548,139
Accounts receivable	54,675
Prepaid insurance	4,626
Capital assets not being depreciated	2,981,463
Capital assets being depreciated, net of accumulated depreciation	<u>632,233</u>
TOTAL ASSETS	6,562,833
DEFERRED OUTFLOW OF RESOURCES	
Deferred outflows related to pension	<u>12,910</u>
	<u><u>\$ 6,575,743</u></u>

See the accompanying notes to the financial statements.

	<u>Governmental Activities</u>
LIABILITIES	
Cash overdraft	\$ 12,055
Accounts payable	1,139,091
Notes payable	162,861
Long-term debt	<u>3,600,000</u>
TOTAL LIABILITIES	4,914,007
NET POSITION	
Net investment in capital assets	1,436,398
Restricted for sports	5,000
Unrestricted	<u>220,338</u>
TOTAL NET POSITION	<u>1,661,736</u>
	<u><u>\$ 6,575,743</u></u>

EMERALD ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense)</u>
		<u>Fees, Fines</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Charges for</u>	<u>Grants and</u>	<u>Change In</u>
		<u>Services</u>	<u>Contribution</u>	<u>Net Position</u>
Governmental Activities:				
Education	\$ 552,828	\$ 2,438	\$ 2,210,300	\$ 1,659,911
General Revenue:				
Interest income				<u>1,825</u>
				CHANGE IN NET POSITION
				1,661,736
NET POSITION AT THE BEGINNING OF THE YEAR				<u>0</u>
				NET POSITION AT THE END OF THE YEAR
				<u>\$ 1,661,736</u>

See the accompanying notes to the financial statements.

EMERALD ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2015

	<u>General Purpose School Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
ASSETS			
Cash	\$ 5,611	\$ 336,085	\$ 341,697
Unspent bond proceeds	0	2,548,139	2,548,139
Accounts receivable	54,675	0	54,675
Prepaid insurance	<u>4,626</u>	<u>0</u>	<u>4,626</u>
TOTAL ASSETS	<u>\$ 64,913</u>	<u>\$ 2,884,225</u>	<u>\$ 2,949,137</u>
LIABILITIES			
Cash overdraft	\$ 12,055	\$ 0	\$ 12,055
Accounts payable	13,653	1,125,437	1,139,090
Notes payable	<u>162,861</u>	<u>0</u>	<u>162,861</u>
TOTAL LIABILITIES	188,569	1,125,437	1,314,006
FUND BALANCES(DEFICIT)			
Nonspendable	4,626	0	4,626
Restricted for sports	5,000	0	5,000
Restricted for capital projects	0	1,758,788	1,758,788
Unassigned	<u>(133,283)</u>	<u>0</u>	<u>(133,283)</u>
	<u>(123,657)</u>	<u>1,758,788</u>	<u>1,635,131</u>
	<u>\$ 64,912</u>	<u>\$ 2,884,225</u>	<u>\$ 2,949,137</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, 2015

Total Fund Balance - Governmental Funds	\$ 1,635,131
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.	3,613,696
Retirement plan contributions made after the actuarial measurement are reported as deferred outflows in the statement of net position	12,910
Long-term liabilities are not due in the current period; therefore, they are not reported in the governmental funds balance sheet.	<u>(3,600,000)</u>
Net Position of Governmental Activities	<u>\$ 1,661,736</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, 2015

	<u>General Purpose School Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
REVENUE			
Contributions	\$ 285,300	\$ 1,800,000	\$ 2,085,300
Federal and state grants	125,000	0	125,000
Interest	1,825	0	1,825
Rental income	<u>2,438</u>	<u>0</u>	<u>2,438</u>
TOTAL REVENUE	414,564	1,800,000	2,214,564
EXPENDITURES			
Current:			
Personal services	142,810	0	142,810
Employee benefits	36,269	0	36,269
Contracted services	254,906	0	254,906
Supplies and materials	77,218	0	77,218
Staff development	4,779	0	4,779
Other charges	20,893	27,300	48,193
Capital outlay	0	3,613,912	3,613,912
Debt service	<u>1,345</u>	<u>0</u>	<u>1,345</u>
TOTAL EXPENDITURES	<u>538,220</u>	<u>3,641,212</u>	<u>4,179,432</u>
(DEFICIENCY) OF REVENUE OVER EXPENDITURES	(123,657)	(1,841,212)	(1,964,869)

EMERALD ACADEMY

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

(continued)

Year Ended June 30, 2015

	<u>General Purpose School Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
OTHER FINANCING SOURCES			
Bond proceeds	<u>0</u>	<u>3,600,000</u>	<u>3,600,000</u>
(DEFICIENCY) EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES	(123,657)	1,758,788	1,635,131
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>0</u>	<u>0</u>	<u>0</u>
FUND (DEFICIT) BALANCE AT THE END OF THE YEAR	<u>\$ (123,657)</u>	<u>\$ 1,758,788</u>	<u>\$ 1,635,131</u>

See the accompanying notes to the financial statements.

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, 2015

Excess of Revenue and Other Financing Sources Over Expenditures	\$ 1,635,131
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 expense:	
Acquisition of capital assets	3,613,912
Depreciation expense	(217)
Issuance of long-term debt provides current financial resources to governmental funds, but increases long-term liabilities for governmental activities	(3,600,000)
Retirement contributions made after the actuarial measurement date are an expenditure in the governmental funds, but increase deferred outflows for governmental activities	<u>12,910</u>
Change in Net Position of Governmental Activities	<u>\$ 1,661,736</u>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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 plans to add additional grades each year culminating in full enrollment of grades kindergarten through eighth by the 2020-2021 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, 2015

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 *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, 2015 has been calculated as follows:

Capital assets	\$ 3,613,912
Accumulated depreciation	(217)
Bonds payable	(3,600,000)
Unspent bond proceeds – reported as restricted net assets	2,548,139
Accounts payable related to construction	<u>(1,125,437)</u>
	<u>\$ 1,436,398</u>

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

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. Net position of the general purpose school fund is restricted for sports programs. 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 Balance

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

Restricted Fund Balance

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, 2015

Committed Fund Balance

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 Balance

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

Unassigned Fund Balance

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

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

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns on the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial cost of \$1,000 or more. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 10 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, 2015 was \$217.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

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 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 Teacher Legacy Pension Plan. Investments are reported at fair value.

The fund financial statements report retirement expense based on contributions made to the Teacher Legacy Pension Plan.

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 had no unrelated business income for the year ended June 30, 2015. 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.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE C – CASH AND INVESTMENTS

Cash and investments are stated at cost, which approximates market value. Carrying amounts at June 30, 2015 were as follows:

Cash on hand	\$ 500
Cash in bank	341,197
Unspent bond proceeds held by trustee	<u>2,548,139</u>
Total	<u>\$ 2,889,836</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 or Securities Investor Protection Corporation (SIPC) 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, 2015 bank balances were held in each category as follows:

Insured – FDIC	\$ 250,000
Insured – SIPC	500,000
Insured – Tennessee Bank Collateral Pool	870,783
Uncollateralized	<u>2,048,139</u>
	<u>\$ 3,668,922</u>

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 was as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2015</u>
<u>Capital assets not</u> <u>being depreciated</u>				
Land	\$ 0	\$ 100,000	\$ 0	\$ 100,000
Construction in process	<u>0</u>	<u>2,881,463</u>	<u>0</u>	<u>2,881,463</u>
	0	2,981,463	0	2,981,463
<u>Capital assets</u> <u>being depreciated</u>				
Buildings	0	605,757	0	605,757
Furniture	0	12,000	0	12,000
Equipment	<u>0</u>	<u>14,693</u>	<u>0</u>	<u>14,693</u>
	0	632,450	0	632,450
<u>Accumulated depreciation</u>				
Buildings	0	0	0	0
Furniture	0	0	0	0
Equipment	<u>0</u>	<u>(217)</u>	<u>0</u>	<u>(217)</u>
	0	(217)	0	(217)
	<u>\$ 0</u>	<u>\$ 3,613,696</u>	<u>\$ 0</u>	<u>\$ 3,613,696</u>

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

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE E - PENSION PLANS

Plan description

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members 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.

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.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Since the actuarial measurement date is prior to the Academy's January 1, 2015 participation in the Teacher Legacy Pension Plan, there were no covered employees in the plan as of June 30, 2014.

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, 2015 to the Teachers Legacy Pension Plan were \$12,910 which is 9.04% of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Pension assets(liabilities) and pension income(expense)

Since the actuarial measurement date is prior to the Academy's January 1, 2015 participation in the Teacher Legacy Pension Plan, there is not a net pension asset(liability) or any pension income(expense) to report at June 30, 2015.

NOTE F - 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.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE G - DEBT

Short-term debt at June 30, 2015 consisted of the following:

Line of credit with a bank, due on demand;
 if no demand is made, principal and unpaid
 interest due January 2020, interest due monthly at
 a variable rate (4.000% at June 30, 2015),
 \$300,000 borrowing limit, used for operations \$ 162,861

The Academy holds three additional lines of credit with an area bank. There were no outstanding balances at June 30, 2015 on these additional lines of credit. Interest on these additional lines of credit are at a variable interest rate based on the Home Federal Bank of Tennessee Base Index Rate (4.000% at June 30, 2015.) The purpose, maturity date and borrowing limit of the three additional lines of credit were as follows:

<u>Purpose</u>	<u>Maturity date</u>	<u>Limit</u>
Operations	6/24/2020	\$ 300,000
Construction – drainage and easements	3/27/2020	136,975
Construction – utilities	12/3/2015	34,400

Long-term debt at June 30, 2015 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 2020. Thereafter, principal and interest of 3.5%
 due in monthly installments of varying amounts
 through April 2055, restricted for capital improvements \$ 3,600,000

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

Short-term debt is due within one year. Maturities of long-term debt as of June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2016	\$ 0	\$ 360	\$ 360
2017	0	360	360
2018	0	360	360
2019	0	360	360
2020	9,000	21,000	30,000
2021-2025	296,665	597,137	893,802
2026-2030	353,333	541,737	895,070
2031-2035	419,333	475,755	895,088
2036-2040	497,671	397,509	895,180
2041-2045	588,335	304,895	893,230
2046-2050	700,001	195,046	895,047
2051-2055	<u>735,663</u>	<u>64,831</u>	<u>800,494</u>
Totals	<u>\$ 3,600,000</u>	<u>\$ 2,599,350</u>	<u>\$ 6,199,350</u>

Changes in short-term and long-term debt for the year ended June 30, 2015 were as follows:

	<u>Balance 7/1/14</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance 6/30/15</u>	<u>Amounts Due Within One Year</u>
<u>Short-term</u>					
Line of credit	\$ 0	\$ 201,218	\$ 38,357	\$ 162,861	\$ 162,861
<u>Long-term</u>					
Educational Revenue					
Bonds, Series 2015	<u>0</u>	<u>3,600,000</u>	<u>0</u>	<u>3,600,000</u>	<u>0</u>
	<u>\$ 0</u>	<u>\$ 3,801,218</u>	<u>\$ 38,357</u>	<u>\$ 3,762,861</u>	<u>\$ 162,861</u>

Interest costs incurred during the year ended June 30, 2015 were \$1,345, none of which was capitalized.

EMERALD ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2015

NOTE H - COMMITMENTS AND CONTINGENCIES

During the year ended June 30, 2015, the Academy entered into contracts totaling \$3,843,988 for renovations of the new Emerald Academy school building. Total expenditures as of June 30, 2015 were \$2,763,259.

REQUIRED SUPPLEMENTARY INFORMATION

EMERALD ACADEMY

PENSION CONTRIBUTIONS

June 30, 2015

	<u>2015</u>
Actuarially determined contributions	\$ 12,910
Contributions in relation to the actuarially determined contributions	<u>(12,910)</u>
Contributions deficiency(excess)	<u><u>\$ -</u></u>
Covered employee payroll	\$ 142,810
Contributions as a percentage of covered employee payroll	9.04%

This is a 10-year schedule; however, Emerald Academy began participation in the Teacher Legacy Pension Plan on January 1, 2015. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See the accompanying independent accountants' audit report.

OTHER SUPPLEMENTARY INFORMATION

EMERALD ACADEMY

BOARD OF DIRECTORS

June 30, 2015

Mr. Steve Diggs, President
Mr. Edwin Hedgepeth, Vice President
Ms. Renda Burkhart
Mr. Guille Cruze
Mr. Randall Gibson
Mr. Alvin Nance
Mr. Timothy McLemore

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

LONG-TERM DEBT REQUIREMENTS

June 30, 2015

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015			
Year ending June 30,			
2016	\$ 0	\$ 360	\$ 360
2017	0	360	360
2018	0	360	360
2019	0	360	360
2020	9,000	21,000	30,000
2021	55,333	123,418	178,751
2022	57,333	121,492	178,825
2023	59,333	119,496	178,829
2024	61,333	117,432	178,765
2025	63,333	115,299	178,632
2026	65,667	113,097	178,764
2027	68,333	110,803	179,136
2028	70,333	108,428	178,761
2029	73,333	105,978	179,311
2030	75,667	103,431	179,098
2031	78,333	100,792	179,125
2032	81,333	98,066	179,399
2033	83,667	95,243	178,910
2034	86,333	92,328	178,661
2035	89,667	89,326	178,993
2036	93,333	86,198	179,531
2037	95,667	82,961	178,628
2038	99,667	79,626	179,293
2039	103,333	76,153	179,486
2040	105,671	72,571	178,242
2041	109,667	68,891	178,558
2042	113,667	65,073	178,740

EMERALD ACADEMY

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2015

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015 (continued)			
Year ending June 30,			
2043	117,667	61,117	178,784
2044	121,667	57,023	178,690
2045	125,667	52,791	178,458
2046	130,000	48,421	178,421
2047	135,667	43,884	179,551
2048	139,667	39,169	178,836
2049	145,000	34,310	179,310
2050	149,667	29,262	178,929
2051	155,000	24,058	179,058
2052	160,000	18,664	178,664
2053	166,000	13,093	179,093
2054	172,000	7,314	179,314
2055	82,662	1,702	84,364
	<u>\$ 3,600,000</u>	<u>\$ 2,599,350</u>	<u>\$ 6,199,350</u>

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

EXPENDITURES OF FEDERAL AWARDS

June 30, 2015

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>			
U.S. Department of Education/ Tennessee Department of Education	84.282A	N/A	<u>\$ 125,000</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, 2015. The schedule is presented using the accrual basis of

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, 2015, and the related notes to the financial statements, which collectively comprise Emerald Academy's basic financial statements, and have issued our report thereon dated February 5, 2016.

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) to determine the 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 determination of financial statement amounts. 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*.

We noted a certain other matter that we have reported to management of Emerald Academy in a separate letter dated February 5, 2016.

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 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.

February 5, 2016