

*Financial Statements*

EMERALD CHARTER SCHOOLS  
EMERALD ACADEMY

Year Ended June 30, 2017

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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, 2017, 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, 2017 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, the schedule of proportionate share of the net pension asset on page 39 and the schedule of pension contributions on page 40 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 January 25, 2018 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*

January 25, 2018

## **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, 2017 as compared to the fiscal year ended June 30, 2016. 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, 2017 by \$692,010 (\$947,206 at June 30, 2016).
- The Academy's net position decreased by \$255,196 during the year ended June 30, 2017 (decreased by \$714,530 in 2016).
- During the year ended June 30, 2017, total revenues of \$2,628,345 were comprised of federal, state and local funds of approximately 81% and charitable giving and other of approximately 19%. During the year ended June 30, 2016, total revenues of \$1,174,755 were comprised of state funds of approximately 85% and charitable giving and other of approximately 15%. 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), 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, 2017 by \$692,010 (\$947,206 at June 30, 2016). At June 30, 2017 the Academy's assets included \$128,597 in cash and accounts receivable. At June 30, 2016 the Academy's assets included \$152,986 of cash and accounts receivable. As of June 30, 2017, the Academy had invested \$5,167,905 (\$5,312,176 at June 30, 2016) 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, 2017 the Academy had debt in the amount of \$4,700,000 (\$4,530,026 at June 30, 2016), which was used to fund certain capital purchases and improvements. See Note H to the financial statements for further information.



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

	<u>2017</u>	<u>2016</u>
Current assets	\$ 208,950	\$ 161,636
Capital assets	<u>5,167,905</u>	<u>5,312,176</u>
Total assets	5,376,855	5,473,812
Deferred outflows of resources	261,986	92,055
Current liabilities	(753,497)	(479,763)
Noncurrent liabilities	<u>(4,100,000)</u>	<u>(4,100,000)</u>
Total liabilities	(4,853,497)	(4,579,763)
Deferred inflows of resources	<u>(93,333)</u>	<u>(38,898)</u>
	<u>\$ 692,010</u>	<u>\$ 947,206</u>
Net position:		
Net investment in capital assets	\$ 1,067,905	\$ 1,212,176
Restricted	106,794	5,000
Unrestricted	<u>(482,689)</u>	<u>(269,970)</u>
Total net position	<u>\$ 692,010</u>	<u>\$ 947,206</u>

During the year ended June 30, 2017, total net position decreased \$255,196 (decreased \$714,530 during 2016). At June 30, 2017 unrestricted net position of the Academy was a deficit of \$482,689 (\$269,970 deficit unrestricted net position at June 30, 2016). A schedule of the Academy's entity-wide revenue and expenses for the period ended June 30 is as follows.

	<u>2017</u>	<u>2016</u>
Revenue:		
Federal, state and local funds	\$ 2,134,643	\$ 1,002,278
Contributions	491,393	170,335
Other	<u>2,309</u>	<u>2,142</u>
Total revenue	2,628,345	1,174,755
Expenses:		
Employee compensation	1,483,975	850,077
Employee benefits	332,420	163,188
Depreciation	188,217	111,653
Contracted services	432,672	360,703
Supplies and materials	378,615	331,397
Staff development	29,961	23,212
Other charges	14,194	41,176
Interest expense	<u>23,487</u>	<u>7,879</u>
Total expenses	<u>2,883,541</u>	<u>1,889,285</u>
Change in net position	<u>\$ (255,196)</u>	<u>\$ (714,530)</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 deficit of \$474,313 at June 30, 2017. A fund deficit of \$317,156 was reported at June 30, 2016, the entirety of which resided in the general purpose school fund. Differences between the amounts reported within the Academy's funds and those reported as the Academy's entity-wide financial statements are due to the different basis of accounting as discussed earlier (see page 11 and 14 for the reconciliation of amounts) and are largely due to the accounting for capital assets and related debt.

## **ACADEMY ACTIVITIES**

The Academy was founded to provide free, sustainable, high quality public schools in Knoxville's urban neighborhoods. Authorized by the Knox County Board of Education, Emerald Academy opened with an inaugural class of 120 kindergarten and first grade scholars in Fall 2016. 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, 2017

**ASSETS**

Cash and cash equivalents	\$ 75,972
Accounts receivable	52,625
Prepaid insurance	34,282
Due from State of Tennessee	46,071
Capital assets not being depreciated	100,000
Capital assets being depreciated net of accumulated depreciation	<u>5,067,905</u>

**TOTAL ASSETS** 5,376,854

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows related to pensions	<u>261,986</u>
	<u>\$ 5,638,840</u>

**LIABILITIES**

Accounts payable	\$ 83,263
Current portion of long-term debt	600,000
Net pension liability	70,234
Long-term debt, net of current portion	<u>4,100,000</u>

**TOTAL LIABILITIES** 4,853,497

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to pensions	93,333
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**NET POSITION**

Net investment in capital assets	\$ 1,067,905	
Restricted	106,794	
Unrestricted	<u>(482,689)</u>	<u>692,010</u>
		<u>\$ 5,638,840</u>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2017

		<u>Program Revenue</u>		Net (Expense) Revenue and Change In Net Position
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
<b>Governmental Activities:</b>				
Education	\$ 2,883,541	\$ 2,280	\$ 2,626,036	\$ (255,225)
<b>General Revenue:</b>				
Interest income				<u>29</u>
				<b>CHANGE IN NET POSITION</b> (255,196)
<b>NET POSITION AT THE BEGINNING OF THE YEAR</b>				<u>947,206</u>
				<b>NET POSITION AT THE END OF THE YEAR</b> <u>\$ 692,010</u>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

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

June 30, 2017

	<u>General Purpose School Fund</u>	<u>Federal Project Fund</u>	<u>Capital Project Fund</u>	<u>Totals</u>
<b>ASSETS</b>				
Cash	\$ 35,958	\$ 0	\$ 40,014	\$ 75,972
Accounts receivable	52,625	0	0	52,625
Prepaid insurance	34,282	0	0	34,282
Due from State of Tennessee	<u>46,071</u>	<u>0</u>	<u>0</u>	<u>46,071</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 168,936</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 40,014</u></b>	<b><u>\$ 208,950</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 83,263	\$ 0	\$ 0	\$ 83,263
Notes payable	<u>600,000</u>	<u>0</u>	<u>0</u>	<u>600,000</u>
<b>TOTAL LIABILITIES</b>	683,263	0	0	683,263
<b>FUND BALANCES(DEFICIT)</b>				
Nonspendable	34,282	0	0	34,282
Restricted	66,780	0	40,014	106,794
Unassigned	<u>(615,389)</u>	<u>0</u>	<u>0</u>	<u>(615,389)</u>
	<u>(514,327)</u>	<u>0</u>	<u>40,014</u>	<u>(474,313)</u>
	<b><u>\$ 168,936</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 40,014</u></b>	<b><u>\$ 208,950</u></b>

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, 2017

<b>Total Fund (Deficit) - Governmental Funds</b>	<b>\$ (474,313)</b>
Capital assets used in governmental activities are reported in the statement of net position; however, they are not current financial resources; therefore, they are not reported in the governmental funds balance sheet.	5,167,905
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 liability	(70,234)
Deferred outflows of resources	261,986
Deferred inflows of resources	(93,333)
Long-term liabilities are not due in the current period; therefore, they are not reported in the governmental funds balance sheet.	<u>(4,100,000)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 692,010</u></b>

See the accompanying notes to the financial statements.

EMERALD ACADEMY

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

Year Ended June 30, 2017

	General Purpose <u>School Fund</u>	Federal Project <u>Fund</u>	Capital Project <u>Fund</u>	<u>Totals</u>
<b>REVENUE</b>				
Contributions	\$ 451,393	\$ 0	\$ 40,000	\$ 491,393
Federal, state and local funds	1,913,417	221,225	0	2,134,643
Interest	15	0	14	29
Rental income	1,500	0	0	1,500
Other income	<u>780</u>	<u>0</u>	<u>0</u>	<u>780</u>
<b>TOTAL REVENUE</b>	2,367,105	221,225	40,014	2,628,345
<b>EXPENDITURES</b>				
Current:				
Personal services	1,333,463	150,512	0	1,483,975
Employee benefits	331,735	46,918	0	378,653
Contracted services	432,672	0	0	432,672
Supplies and materials	362,007	16,608	0	378,615
Staff development	23,020	6,941	0	29,961
Other charges	13,948	246	0	14,194
Capital outlay	43,945	0	0	43,945
Debt service	<u>23,487</u>	<u>0</u>	<u>0</u>	<u>23,487</u>
<b>TOTAL EXPENDITURES</b>	<u>2,564,277</u>	<u>221,225</u>	<u>0</u>	<u>2,785,502</u>

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, 2017

	<u>General Purpose School Fund</u>	<u>Federal Project Fund</u>	<u>Capital Project Fund</u>	<u>Totals</u>
<b>(DEFICIENCY)EXCESS OF REVENUE OVER EXPENDITURES</b>	(197,171)	0	40,014	(157,157)
<b>FUND (DEFICIT) AT THE BEGINNING OF THE YEAR</b>	<u>(317,156)</u>	<u>0</u>	<u>0</u>	<u>(317,156)</u>
<b>FUND (DEFICIT)BALANCES AT THE END OF THE YEAR</b>	<u>\$ (514,327)</u>	<u>\$ 0</u>	<u>\$ 40,014</u>	<u>\$ (474,313)</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, 2017

<b>(Deficiency) of Revenue Over Expenditures - Governmental Funds</b>	<b>\$ (157,157)</b>
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	43,945
Depreciation expense	(188,217)
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	(33,139)
Retirement contributions made after the actuarial measurement date are not expenditures in the governmental funds, but increase deferred outflows for governmental activities.	<u>79,372</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (255,196)</u></b>

See the accompanying notes to the financial statements.

## EMERALD ACADEMY

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

#### **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 2016-2017 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 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, 2017

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, 2017 has been calculated as follows:

Capital assets	\$ 5,467,991
Accumulated depreciation	(300,086)
Bonds payable	<u>(4,100,000)</u>
	<u>\$ 1,067,905</u>

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

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 equipment and for time restrictions. 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, 2017

Committed Fund Balances

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

Assigned Fund Balances

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

Unassigned Fund Balance

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

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

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns on the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial cost of \$1,000 or more. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciation expense for the year ended June 30, 2017 was \$188,217.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

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 the Teacher Legacy Pension Plan and the Teacher Retirement Plan. 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 had no unrelated business income for the year ended June 30, 2017. 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, 2017

**NOTE C - CASH AND INVESTMENTS**

Cash and investments are stated at cost, which approximates market value. Carrying amounts at June 30, 2017 were as follows:

Cash on hand	\$ 652
Cash in bank	<u>75,320</u>
Total	<u>\$ 75,972</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, 2017 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, 2017

**NOTE D - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Capital assets not</u> <u>being depreciated</u>				
Land	\$ 100,000	\$ 0	\$ 0	\$ 100,000
Construction in process	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	100,000	0	0	100,000
 <u>Capital assets</u> <u>being depreciated</u>				
Buildings	4,763,738	16,273	0	4,780,011
Land improvements	15,000	0		15,000
Furniture	117,672	0	0	117,672
Equipment	<u>427,637</u>	<u>27,672</u>	<u>0</u>	<u>455,308</u>
	5,324,046	43,945	0	5,367,991
 <u>Accumulated depreciation</u>				
Buildings	(69,429)	(119,385)	0	(188,814)
Land improvements	(440)	(750)		(1,190)
Furniture	(10,597)	(11,767)	0	(22,364)
Equipment	<u>(31,405)</u>	<u>(56,314)</u>	<u>0</u>	<u>(87,718)</u>
	<u>(111,870)</u>	<u>(188,217)</u>	<u>0</u>	<u>(300,086)</u>
	<u>\$ 5,312,176</u>	<u>\$ (144,272)</u>	<u>\$ 0</u>	<u>\$ 5,167,905</u>

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



EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

**NOTE E - PENSION PLANS**

*Teacher Legacy Pension Plan*

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](http://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, 2017

Under the Teacher Legacy Pension Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of salary. The Local Education Agencies (LEAs) makes employer contributions at the rate set by the TCRS Board of Trustees as determined by an actuarial valuation. By law, employer contributions are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if required employer contributions are not remitted. Employer contributions by the Academy for the year ended June 30, 2017 to the Teachers Legacy Pension Plan were \$52,268 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)

At June 30, 2017 the Academy reported a liability of \$75,439 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability 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, 2016 the Academy's proportion was 0.012071%. The proportion measured as of June 30, 2015 was 0.002369%.

Pension Expense

For the year ended June 30, 2017, the Academy recognized pension expense of \$28,675.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2017, 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	\$ 3,175	\$ 91,331
Net difference between projected and actual earnings on pension plan investments	84,228	0
Changes in proportion of Net Pension Liability(Asset)	93,855	0
Contributions subsequent to the measurement date of June 30, 2016	<u>52,268</u>	<u>not applicable</u>
	<u>\$ 233,526</u>	<u>\$ 91,331</u>

The Academy's employer contributions of \$52,268, 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2018	\$ 5,668
2019	5,668
2020	46,073
2021	23,751
Thereafter	8,766

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, 2017

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-Living adjustment	2.5%

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3%.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	<u>1%</u>
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. 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, 2017

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

The following presents the Academy’s proportionate share of the net pension liability(asset) calculated using the discount rate of 7.5%, as well as what the Academy’s proportionate share of the net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Proportionate share of the net pension liability(asset)	\$ 414,248	\$ 75,439	\$ (205,215)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2017, the Academy reported a payable of \$5,200 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

*Teacher Retirement Plan*

Plan Description

Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of the Academy are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. 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 [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

## EMERALD ACADEMY

### NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2017

#### 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 year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 and vested or pursuant to the rule of 80. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic 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. Under the Teacher Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

#### Contributions

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in the law. Teachers contribute 5% of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4%, except for in years when the maximum funded level, approved 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, 2017 to the Teacher Retirement Plan were \$27,104, which is 4% of covered payroll. The employer rate, 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.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

Pension Assets(Liabilities) and Pension Income(Expense)

At June 30, 2017, the Academy reported an asset of \$5,203 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, 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, 2016 the Academy's proportion was .049977%. There was not a pension asset(liability) to report for the measurement date of June 30, 2015 because this date was prior to the Academy's July 1, 2015 participation in the Teacher Retirement Plan.

Pension Expense

For the year ended June 30, 2017, the Academy recognized pension expense of \$4,239. No pension expense was reported at the measurement date of June 30, 2015 because this date was prior to the Academy's July 1, 2015 participation in the Teacher Retirement Plan.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2017, 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	\$ 504	\$ 600
Net difference between projected and actual earnings on pension plan investments	852	0
Changes in proportion of Net Pension Liability(Asset) Contributions subsequent to the measurement date of June 30, 2016	0	1,402
	<u>27,104</u>	<u>not applicable</u>
	<u>\$ 28,460</u>	<u>\$ 2,002</u>



EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

The Academy's employer contributions of \$27,104, 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2018	\$ 94
2019	94
2020	94
2021	53
2022	(129)
Thereafter	(851)

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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-Living adjustment	2.5%

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3%.

The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	<u>1%</u>
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. 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.

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

The following presents the Academy's proportionate share of the net pension liability(asset) calculated using the discount rate of 7.5%, as well as what the Academy's proportionate share of the net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
Proportionate share of the net pension liability(asset)	\$ 2,457	\$ (5,203)	\$ (10,846)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2017, the Academy reported a payable of \$2,241 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

**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 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 \$10,909 for the year ended June 30, 2017.

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. The Academy's employer contributions to the state administered 401(k) plan were \$33,331 for the year ended June 30, 2017.

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

**NOTE G - 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 H - DEBT**

Short-term debt at June 30, 2017 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 (4.50% at June 30, 2017), \$300,000 borrowing limit, used for operations	\$ 150,000
Line of credit with a bank, due on demand, if no demand is made, principal and unpaid interest due June, 2020, interest due monthly at a variable rate (4.50% at June 30, 2017), \$300,000 borrowing limit, used for operations	150,000
Note payable to Emerald Youth Foundation, due on demand; if no demand is made, principal and unpaid interest due December 31, 2020, interest accrues monthly at 1% per annum, this note is unsecured	<u>300,000</u>
	<u>\$ 600,000</u>

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

The Academy holds an additional line of credit with an area bank. There was no outstanding balance at June 30, 2017 on this additional line of credit. Interest on this additional line of credit is at a variable interest rate based on the Home Federal Bank of Tennessee Base Index Rate (4.50% at June 30, 2017.) The purpose, maturity date and borrowing limit of the additional line of credit is as follows:

<u>Purpose</u>	<u>Maturity date</u>	<u>Limit</u>
Construction – drainage and easements	3/27/2020	\$ 136,975

Long-term debt at June 30, 2017 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, 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 2020. 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>

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

Short-term debt is due within one year. Maturities of long-term debt as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2018	\$ 0	\$ 410	\$ 410
2019	0	410	410
2020	10,250	23,917	34,167
2021	63,019	140,559	203,578
2022	65,296	138,366	203,662
2023-2027	362,167	656,144	1,018,311
2028-2032	431,639	588,458	1,020,097
2033-2037	510,981	508,008	1,018,989
2038-2042	605,893	412,634	1,018,527
2043-2047	718,259	299,319	1,017,578
2048-2052	853,407	165,303	1,018,710
2053-2055	<u>479,089</u>	<u>25,180</u>	<u>504,269</u>
Totals	<u>\$ 4,100,000</u>	<u>\$ 2,958,708</u>	<u>\$ 7,058,708</u>

EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

Changes in short-term and long-term debt for the year ended June 30, 2017 were as follows:

	<u>Balance</u> 7/1/16	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> 6/30/17	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<u>Short-term</u>					
Lines of credit	\$ 436,781	\$ 2,052,973	\$ 2,189,754	\$ 300,000	\$ 300,000
Emerald Youth Foundation note payable	0	300,000	0	300,000	300,000
<u>Long-term</u>					
Educational Revenue Bonds, Series 2015	3,600,000	0	0	3,600,000	0
Educational Revenue Bonds, Series 2015B	<u>500,000</u>	<u>0</u>	<u>0</u>	<u>500,000</u>	<u>0</u>
	<u>\$ 4,536,781</u>	<u>\$ 2,352,973</u>	<u>\$ 2,189,754</u>	<u>\$ 4,700,000</u>	<u>\$ 600,000</u>

Interest costs incurred during the year ended June 30, 2017 were \$23,487, none of which was capitalized.



EMERALD ACADEMY

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

**NOTE I - RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2017, the Academy paid \$99,000 to Emerald Youth Foundation for administrative assistance. Two of the Academy's board members are also on the board of Emerald Youth Foundation. In August 2016, the Academy signed a line of credit promissory note agreement with Emerald Youth Foundation providing the Academy with access to up to \$300,000 in funds for operations at 1% interest. The line of credit is due on demand, if no demand is made, all outstanding principal and interest is due on December 31, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

EMERALD ACADEMY

**PROPORTIONATE SHARE OF THE NET PENSION ASSET**

June 30, 2017

Teacher Legacy Pension Plan

	Measurement Date at June 30,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability(asset)	0.012071%	0.002369%	0.00%
Proportionate share of the net pension liability(asset)	\$ 75,439	\$ 971	\$ 0
Covered employee payroll	\$ 435,750	\$ 88,697	\$ 0
Proportionate share of the net pension liability(asset) as a percentage of its covered employee payroll	17.31%	1.094251%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	97.14%	99.81%	100.08%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Emerald Academy began participation in the Teacher Legacy Pension Plan on January 1, 2015 and in the Teacher Retirement Plan on July 1, 2015. Years will be added to this schedule in the future fiscal years until 10 years of information is available.

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

**PENSION CONTRIBUTIONS**

June 30, 2017

Teacher Legacy Retirement Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 52,268	\$ 39,392	\$ 12,910
Contributions in relation to the actuarially determined contributions	<u>(52,268)</u>	<u>(39,392)</u>	<u>(12,910)</u>
Contributions deficiency(excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered employee payroll	\$ 578,183	\$ 435,750	\$ 142,810
Contributions as a percentage of covered employee payroll	9.04%	9.04%	9.04%

Teacher Retirement Plan (revised 9/11/17)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 27,104	\$ 5,505	\$ 0
Contributions in relation to the contractually required contributions	<u>(27,104)</u>	<u>(8,796)</u>	<u>0</u>
Contributions deficiency(excess)	<u>\$ 0</u>	<u>\$ (3,291)</u>	<u>\$ 0</u>
Covered employee payroll	\$ 677,606	\$ 219,901	\$ 0
Contributions as a percentage of covered employee payroll	4.00%	4.00%	0.00%

This is a 10-year schedule; however, Emerald Academy began participation in the Teacher Legacy Pension Plan on January 1, 2015 and in the Teacher Retirement Plan on July 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, 2017

Mr. Steve Diggs, President  
Mr. Edwin Hedgepeth, Vice President  
Mr. Alvin Nance, Treasurer  
Ms. Mary Kay Emge, Secretary  
Mr. Guille Cruze (through June 30, 2017)  
Janene Nordin (beginning July 1, 2017)  
Mr. Randall Gibson  
Dr. Kala Gray  
Mr. Timothy McLemore  
Dr. Rhoda Stone

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

**LONG-TERM DEBT REQUIREMENTS**

Year Ended June 30, 2017

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015			
Year ending June 30,			
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
2043	117,667	61,117	178,784

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

**LONG-TERM DEBT REQUIREMENTS**

(continued)

Year Ended June 30, 2017

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015 (continued)			
Year ending June 30,			
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>\$ 2,598,630</u>	<u>\$ 6,198,630</u>

Educational Revenue Bonds,  
Series 2015B

Year ending June 30,			
2018	\$ 0	\$ 50	\$ 50
2019	0	50	50
2020	1,250	2,917	4,167
2021	7,685	17,141	24,826
2022	7,963	16,874	24,837
2023	8,241	16,597	24,838



EMERALD ACADEMY

**LONG-TERM DEBT REQUIREMENTS**

(continued)

Year Ended June 30, 2017

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015B (continued)			
Year ending June 30,			
2024	8,519	16,310	24,829
2025	8,796	16,014	24,810
2026	9,120	15,708	24,828
2027	9,491	15,389	24,880
2028	9,769	15,059	24,828
2029	10,185	14,719	24,904
2030	10,509	14,365	24,874
2031	10,880	13,999	24,879
2032	11,297	13,620	24,917
2033	11,621	13,228	24,849
2034	11,991	12,823	24,814
2035	12,454	12,406	24,860
2036	12,963	11,972	24,935
2037	13,287	11,522	24,809
2038	13,843	11,059	24,902
2039	14,352	10,577	24,929
2040	14,676	10,079	24,755
2041	15,232	9,568	24,800
2042	15,787	9,038	24,825
2043	16,343	8,488	24,831
2044	16,899	7,920	24,819
2045	17,454	7,332	24,786
2046	18,056	6,725	24,781
2047	18,843	5,619	24,462
2048	19,389	5,440	24,829
2049	20,139	4,402	24,541
2050	20,787	4,064	24,851

EMERALD ACADEMY

**LONG-TERM DEBT REQUIREMENTS**

(continued)

Year Ended June 30, 2017

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Educational Revenue Bonds, Series 2015B (continued)			
Year ending June 30,			
2051	21,528	3,341	24,869
2052	22,222	2,592	24,814
2053	23,056	1,818	24,874
2054	23,889	1,016	24,905
2055	11,484	237	11,721
	<u>\$ 500,000</u>	<u>\$ 360,078</u>	<u>\$ 860,078</u>

EMERALD ACADEMY

**EXPENDITURES OF FEDERAL AWARDS**

June 30, 2017

<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	84.010	N/A	<u>\$ 221,225</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, 2017. The schedule is presented using the accrual basis of accounting.

**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 BALANCES**

Emerald Academy had no federal loans outstanding at June 30, 2017.

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, 2017, and the related notes to the financial statements, which collectively comprise Emerald Academy's basic financial statements, and have issued our report thereon dated January 25, 2018.

**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*.

## **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.

January 25, 2018

EMERALD ACADEMY

**PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2017

**PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

There were no findings reported in the prior year.