Financial Statements

EMERALD CHARTER SCHOOLS
EMERALD ACADEMY

Year Ended June 30, 2018

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MEH MITCHELL EMERT & HILL, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2018, and the related notes to the financial statements, which collectively comprise Emerald Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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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, 2018 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 to 7, the schedule of proportionate share of the net pension liability (asset) on pages 38 and 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 31, 2019 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 31, 2019

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, 2018 as compared to the fiscal year ended June 30, 2017. 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, 2018 by $619,105 ($692,010 at June 30, 2017).
- The Academy's net position decreased by $72,905 during the year ended June 30, 2018 (decreased by $255,196 in 2017).
- During the year ended June 30, 2018, total revenues of $3,775,238 were comprised of federal, state and local funds of approximately 85% and charitable giving and other of approximately 15%. During the year ended June 30, 2017, total revenues of $2,628,345 were comprised of state funds of approximately 81% and charitable giving and other of approximately 19%. 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 13.

ENTITY-WIDE FINANCIAL ANALYSIS

The Academy's assets exceeded its liabilities at June 30, 2018 by $619,105 ($692,010 at June 30, 2017). At June 30, 2018 the Academy's assets included $243,489 in cash and accounts receivable. At June 30, 2017 the Academy's assets included $128,597 of cash and accounts receivable. As of June 30, 2018, the Academy had invested $5,048,204 ($5,167,905 at June 30, 2017) 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, 2018 the Academy had debt in the amount of $4,854,252 ($4,700,000 at June 30, 2017), 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:

		2018	2017
Current assets		$ 358,790	$ 208,950
Net pension asset		33,086	0
Capital assets		5,048,204	5,167,905
	Total assets	5,440,080	5,376,855
Deferred outflows of resources		265,331	261,986
Current liabilities		(861,782)	(683,263)
Net pension liability		0	(70,234)
Noncurrent liabilities		(4,100,000)	(4,100,000)
	Total liabilities	(4,961,782)	(4,853,497)
Deferred inflows of resources		(124,524)	(93,333)
		$ 619,105	$ 692,010
Net position:			
Net investment in capital assets		$ 948,204	$ 1,067,905
Restricted		317,335	106,794
Unrestricted		(646,434)	(482,689)
	Total net position	$ 619,105	$ 692,010

During the year ended June 30, 2018, total net position decreased $72,905 (decreased $255,196 during 2017). At June 30, 2018 unrestricted net position of the Academy was a deficit of $646,434 ($482,689 deficit unrestricted net position at June 30, 2017). A schedule of the Academy's entity-wide revenue and expenses for the period ended June 30 is as follows.

		2018	2017
Revenue:			
Federal, state and local funds		$ 3,201,030	$ 2,134,643
Contributions		572,056	491,393
Other		2,152	2,309
	Total revenue	3,775,238	2,628,345

	2018	2017
Expenses:		
Employee compensation	2,070,232	1,483,975
Employee benefits	480,699	332,420
Depreciation	194,367	188,217
Contracted services	570,449	432,672
Supplies and materials	471,719	378,615
Staff development	27,861	29,961
Other charges	14,129	14,194
Interest expense	18,687	23,487
Total expenses	3,848,143	2,883,541
Change in net position	$ (72,905)	$ (255,196)

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 $502,992 at June 30, 2018. A fund deficit of $474,313 was reported at June 30, 2017, 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 13 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 2017. 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, 2018

ASSETS		
Cash and cash equivalents		$ 45,239
Accounts receivable		198,250
Prepaid expenses		35,554
Due from State of Tennessee		79,747
Net pension asset		33,086
Capital assets not being depreciated		100,000
Capital assets being depreciated net of accumulated depreciation		4,948,204
TOTAL ASSETS		5,440,080
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions		265,331
		$ 5,705,411
LIABILITIES		
Accounts payable		$ 107,530
Notes payable		754,252
Long-term debt, net of current portion		4,100,000
TOTAL LIABILITIES		4,961,782
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions		124,524
NET POSITION		
Net investment in capital assets	$ 948,204	
Restricted	317,335	
Unrestricted	(646,434)	619,105
		$ 5,705,411

See the accompanying notes to the financial statements.

EMERALD ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	Expenses	Program Revenue: Fees, Fines and Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Change In Net Position: Totals
Governmental Activities:				
Education	$ 3,848,143	$ 2,056	$ 3,773,086	$ (73,001)
General Revenue:				
Interest income				96
CHANGE IN NET POSITION				(72,905)
NET POSITION AT THE BEGINNING OF THE YEAR				692,010
NET POSITION AT THE END OF THE YEAR				$ 619,105

See the accompanying notes to the financial statements.

EMERALD ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2018

	General Purpose School Fund	Federal Project Fund	Capital Project Fund	Totals
ASSETS				
Cash	$ 3,973	$ 0	$ 41,266	$ 45,239
Accounts receivable	198,250	0	0	198,250
Prepaid insurance	35,554	0	0	35,554
Due from State of Tennessee	79,747	0	0	79,747
TOTAL ASSETS	$ 317,524	$ 0	$ 41,266	$ 358,790
LIABILITIES				
Accounts payable	$ 107,530	$ 0	$ 0	$ 107,530
Notes payable	754,252	0	0	754,252
TOTAL LIABILITIES	861,782	0	0	861,782
FUND BALANCES(DEFICIT)				
Nonspendable	35,554	0	0	35,554
Restricted	242,983	0	41,266	284,249
Unassigned	(822,795)	0	0	(822,795)
	(544,258)	0	41,266	(502,992)
	$ 317,524	$ 0	$ 41,266	$ 358,791

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, 2018

Total Fund (Deficit) - Governmental Funds	$ (502,992)
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.	5,048,204
Net pension assets and liabilities, and the related deferred outflows and deferred inflows, are reported in the statement of net position; however, they are not current financial resources; therefore, they are not reported in the governmental funds balance sheet.	
Net pension asset	33,086
Deferred outflows of resources	265,331
Deferred inflows of resources	(124,524)
Long-term liabilities are not due in the current period; therefore, they are not reported in the governmental funds balance sheet.	(4,100,000)
Net Position of Governmental Activities	$ 619,105

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, 2018

	General Purpose School Fund	Federal Project Fund	Capital Project Fund	Totals
REVENUE				
Contributions	$ 545,706	$ 0	$ 26,350	$ 572,056
Federal, state and local funds	2,924,427	276,603	0	3,201,030
Interest	53	0	44	96
Other income	2,056	0	0	2,056
TOTAL REVENUE	3,472,242	276,603	26,394	3,775,238
EXPENDITURES				
Current:				
Personal services	1,883,405	186,827	0	2,070,232
Employee benefits	501,271	54,898	0	556,169
Contracted services	570,309	0	140	570,449
Supplies and materials	470,519	0	1,200	471,719
Staff development	23,661	4,200	0	27,861
Other charges	11,676	0	0	11,676
Capital outlay	22,644	30,678	23,801	77,123
Debt service	18,687	0	0	18,687
TOTAL EXPENDITURES	3,502,172	276,603	25,142	3,803,917
(DEFICIENCY)EXCESS OF REVENUE OVER EXPENDITURES	(29,930)	0	1,252	(28,678)
FUND (DEFICIT)BALANCES AT THE BEGINNING OF THE YEAR	(514,327)	0	40,014	(474,313)
FUND (DEFICIT)BALANCES AT THE END OF THE YEAR	$ (544,258)	$ 0	$ 41,266	$ (502,992)

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, 2018

(Deficiency) of Revenue Over Expenditures - Governmental Funds	$ (28,678)
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	77,123
Loss on disposal of asset	(2,457)
Depreciation expense	(194,367)
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	(36,628)
Retirement contributions made after the actuarial measurement date are not expenditures in the governmental funds, but increase deferred outflows for governmental activities.	112,102
Change in Net Position of Governmental Activities	$ (72,905)

See the accompanying notes to the financial statements.

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 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.

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, 2018 has been calculated as follows:

Capital assets	$ 5,540,878
Accumulated depreciation	(492,674)
Bonds payable	(4,100,000)
	$ 948,204

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.

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, 2018 was $194,367.

Pensions

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

Income Tax

Emerald Charter Schools is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on unrelated business income. Emerald Charter Schools had no unrelated business income for the year ended June 30, 2018. 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.

NOTE C - CASH AND INVESTMENTS

Cash and investments are stated at cost, which approximates market value. Carrying amounts at June 30, 2018 were as follows:

Cash on hand	$ 940
Cash in bank	37,308
Total	$ 38,248

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, 2018 all bank balances were fully insured by the FDIC or the State of Tennessee Bank Collateral Pool.

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 100,000	$ 0	$ 0	$ 100,000
Construction in process	0	0	0	0
	100,000	0	0	100,000
Capital assets being depreciated				
Buildings	4,780,011	0	0	4,780,011
Land improvements	15,000	23,801		38,801
Furniture	117,672	0	0	117,672
Equipment	455,308	53,322	(4,236)	504,394
	5,367,991	77,123	(4,236)	5,440,878
Accumulated depreciation				
Buildings	(188,814)	(119,500)	0	(308,314)
Land improvements	(1,190)	(1,543)		(2,733)
Furniture	(22,364)	(11,767)	0	(34,131)
Equipment	(87,718)	(61,556)	1,779	(147,495)
	(300,086)	(194,367)	1,779	(492,674)
	$ 5,167,905	$ (117,244)	$ (2,457)	$ 5,048,204

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

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.

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.

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, 2018 to the Teachers Legacy Pension Plan were $73,620 which is 9.08% 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, 2018 the Academy reported an asset of $5,504 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension asset was based on the Academy's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2017 the Academy's proportion was 0.016824%. The proportion measured as of June 30, 2016 was 0.012071%.

Pension Expense

For the year ended June 30, 2018, the Academy recognized pension expense of $26,544.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Academy reported the following deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,318	$ 113,640
Changes in assumptions	46,619	0
Net difference between projected and actual earnings on pension plan investments	836	0
Changes in proportion of net pension liability(asset)	99,066	0
Contributions subsequent to the measurement date of June 30, 2017	73,620	not applicable
	$ 223,459	$ 113,640

The Academy's employer contributions of $73,620, 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2019	($12,906)
2020	43,405
2021	12,295
2022	(6,595)
2023	0
Thereafter	0

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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.75% to 3.45% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-Living adjustment	2.25%

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

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of Assumptions

In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%; and modified mortality assumptions.

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

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

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

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

Discount Rate

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Proportionate share of the net pension liability (asset)	$ 493,900	$ (5,504)	$ (418,295)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2018, the Academy reported a payable of $5,990 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

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.

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 is 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 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, as established by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2018 to the Teacher Retirement Plan were $38,481, which is 4% 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, 2018, the Academy reported an asset of $27,580 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, 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, 2017 the Academy's proportion was .104536%. The proportion measured as of June 30, 2016 was .049977%.

Pension Expense

For the year ended June 30, 2018, the Academy recognized pension expense of $11,916.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Academy reported the following deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 967	$ 2,074
Net difference between projected and actual earnings on pension plan investments	0	1,484
Changes in assumptions	2,423	0
Changes in proportion of net pension liability(asset)	0	7,326
Contributions subsequent to the measurement date of June 30, 2017	38,481	not applicable
	$ 41,871	$ 10,884

The Academy's employer contributions of $38,481, 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2019	$ (727)
2020	(727)
2021	(812)
2022	(1,193)
2023	(494)
Thereafter	(3,545)

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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.75% to 3.45% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-Living adjustment	2.25%

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

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

Changes of Assumptions

In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; and decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%.

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

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

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

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

Discount Rate

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Proportionate share of the net pension liability(asset)	$ 5,503	$ (27,580)	$ (51,847)

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2018, the Academy reported a payable of $3,267 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2018.

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 $12,342 for the year ended June 30, 2018.

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 $48,470 for the year ended June 30, 2018.

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, 2018 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 (4.75% at June 30, 2018), $300,000 borrowing limit, used for operations. This note is secured by a right of setoff.	$ 300,000
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 (5.0% at June 30, 2018), $300,000 borrowing limit, used for operations. This note is secured by a right of setoff.	4,252
Line of credit with a bank, due on demand, if no demand is made, principal and unpaid interest due September 2018, variable interest rate (4.75% at June 30, 2018), $200,000, borrowing limit, used for operations. This note is secured by a right of setoff.	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.	300,000
	$ 754,252

Long-term debt at June 30, 2018 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	500,000
	$ 4,100,000

NOTES TO THE FINANCIAL STATEMENTS
(continued)

June 30, 2018

Short-term debt is due within one year. Maturities of long-term debt as of June 30, 2018 are as follows:

Year Ending June 30,	Principal	Interest	Totals
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	67,574	136,093	203,667
2024	69,852	133,742	203,594
2025	72,129	131,313	203,442
2026	74,787	128,805	203,592
2027	77,824	126,192	204,016
2028	80,102	123,487	203,589
2029	83,518	120,697	204,215
2030	86,176	117,796	203,972
2031	89,213	114,791	204,004
2032	92,630	111,686	204,316
2033	95,288	108,471	203,759
2034	98,324	105,151	203,475
2035	102,121	101,732	203,853
2036	106,296	98,170	204,466
2037	108,954	94,483	203,437
2038	113,510	90,685	204,195
2039	117,685	86,730	204,415
2040	120,347	82,650	202,997
2041	124,899	78,459	203,358
2042	129,454	74,109	203,563
2043	134,010	69,605	203,615
2044	138,566	64,943	203,509
2045	143,121	60,123	203,244
2046	148,056	55,146	203,202
2047	154,510	49,503	204,013
2048	159,056	44,609	203,665
2049	165,139	38,712	203,851
2050	170,454	33,326	203,780

Year Ending June 30,	Principal	Interest	Totals
2051	176,528	27,399	203,927
2052	182,222	21,256	203,478
2053	189,056	14,911	203,967
2054	195,889	8,330	204,219
2055	94,146	1,939	96,085
Totals	$ 4,100,000	$ 2,958,298	$ 7,058,298

Changes in short-term and long-term debt for the year ended June 30, 2018 were as follows:

	Balance 7/1/17	Proceeds	Payments	Balance 6/30/18	Amounts Due Within One Year
Short-term					
Lines of credit	$ 300,000	$ 2,562,469	$ 2,408,217	$ 454,252	$ 454,252
Emerald Youth Foundation note payable	300,000	0	0	300,000	300,000
Long-term					
Educational Revenue Bonds, Series 2015	3,600,000	0	0	3,600,000	0
Educational Revenue Bonds, Series 2015 2015B	500,000	0	0	500,000	0
	$ 4,700,000	$ 2,562,469	$ 2,408,217	$ 4,854,252	$ 754,252

Interest costs incurred during the year ended June 30, 2018 were $18,687, none of which was capitalized.

NOTE I - RESTRICTED NET POSITION

Amounts shown as restricted net position in the Statement of Net Position are as follows:

Time restrictions	$ 198,250
Restricted for capital projects	41,266
Restricted for sports	44,733
Restricted for pension	33,086
	$ 317,335

NOTE J - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2018, the Academy paid $144,000 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 LIABILITY (ASSET)

June 30, 2018

Teacher Legacy Pension Plan

	Measurement date at June 30, 2017	2016	2015	2014
Proportion of the net pension liability (asset)	$ (5,504)	$ 75,439	$ 971	$ 0
Proportionate share of the net pension liability (asset)	0.02%	0.01%	0.00%	0.00%
Covered employee payroll	$ 594,706	$ 435,750	$ 88,697	$ 0
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	(.93)%	17.31%	1.09%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	100.14%	97.14%	99.81%	100.08%

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

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

June 30, 2018

Teacher Retirement Plan

	Measurement date at June 30, 2017	2016	2015	2014
Proportion of the net pension liability (asset)	$ (27,580)	$ 0	$ 0	$ 0
Proportionate share of the net pension liability (asset)	0.10%	0.00%	0.00%	0.00%
Covered employee payroll	$ 640,267	$ 0	$ 0	$ 0
Proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	(4.31)%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	126.81%	0.00%	0.00%	0.00%

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

EMERALD ACADEMY

PENSION CONTRIBUTIONS

June 30, 2018

Teacher Legacy Retirement Plan

	2018	2017	2016	2015
Actuarially determined contributions	$ 73,620	$ 53,761	$ 39,392	$ 12,910
Contributions in relation to the actuarially determined contributions	(73,620)	(53,761)	(39,392)	(12,910)
Contributions deficiency(excess)	$ 0	$ 0	$ 0	$ 0
Covered employee payroll	$ 810,794	$ 594,706	$ 435,750	$ 142,810
Contributions as a percentage of covered employee payroll	9.08%	9.04%	9.04%	9.04%

Teacher Retirement Plan

	2018	2017	2016	2015
Contractually required contributions	$ 38,481	$ 27,444	$ 5,505	$ 0
Contributions in relation to the contractually required contributions	(38,481)	(27,444)	(8,796)	0
Contributions deficiency(excess)	$ 0	$ 0	$ (3,291)	$ 0
Covered employee payroll	$ 962,037	$ 640,267	$ 219,901	$ 0
Contributions as a percentage of covered employee payroll	4.00%	4.29%	4.00%	0.00%

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

See the accompanying independent accountants' audit report.

OTHER SUPPLEMENTARY INFORMATION

EMERALD ACADEMY

BOARD OF DIRECTORS

June 30, 2018

Mr. Steve Diggs, President
Mr. Alvin Nance, Treasurer
Mr. Randall Gibson, Secretary
Mr. Edwin Hedgepeth
Janene Nordin
Dr. Kala Gray
Mr. Timothy McLemore
Mr. Sanford Miller

See the accompanying independent accountants' audit report.

EMERALD ACADEMY

LONG-TERM DEBT REQUIREMENTS

Year Ended June 30, 2018

	Principal	Interest	Totals
Educational Revenue Bonds, Series 2015			
Year ending June 30,			
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
2044	121,667	57,023	178,690

See the accompanying independent accountants' audit report.

LONG-TERM DEBT REQUIREMENTS
(continued)

Year Ended June 30, 2018

	Principal	Interest	Totals
Educational Revenue Bonds, Series 2015 (continued)			
Year ending June 30,			
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
	$ 3,600,000	$ 2,598,270	$ 6,198,270

	Principal	Interest	Totals
Educational Revenue Bonds, Series 2015B			
Year ending June 30,			
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
2024	8,519	16,310	24,829
2025	8,796	16,014	24,810

LONG-TERM DEBT REQUIREMENTS
(continued)

Year Ended June 30, 2018

	Principal	Interest	Totals
Educational Revenue Bonds, Series 2015B (continued)			
Year ending June 30,			
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
2051	21,528	3,341	24,869
2052	22,222	2,592	24,814

LONG-TERM DEBT REQUIREMENTS
(continued)

Year Ended June 30, 2018

	Principal	Interest	Totals
Educational Revenue Bonds, Series 2015B (continued)			
Year ending June 30,			
2053	23,056	1,818	24,874
2054	23,889	1,016	24,905
2055	11,484	237	11,721
	$ 500,000	$ 360,028	$ 860,028

EMERALD ACADEMY

EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor	CFDA Number	Contract Number	Expenditures
Federal Awards			
U.S. Department of Education/ Tennessee Department of Education	84.010	N/A	$ 276,603

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, 2018. 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, 2018.

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

MEH MITCHELL EMERT & HILL, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2018, 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 31, 2019.

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.

416 Erin Drive • Knoxville, Tennessee 37919 • (865) 522-2396 • Fax (865) 523-6318

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 of Emerald Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Emerald Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mitchell Emert & Hill

January 31, 2019

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no findings reported in the prior year.