

CHEROKEE CHARTER ACADEMY

**Annual Financial Report
For the Fiscal Year Ended June 30, 2018**

**Presented by Finance Department
Canton, Georgia**

CHEROKEE CHARTER ACADEMY
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

- TABLE OF CONTENTS -

Page

I. FINANCIAL SECTION

Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, And Changes in Fund Balances to the Statement of Activities	14
General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (GAAP)	15
Statement of Fiduciary Assets and Liabilities – Agency Fund	16
Notes to Financial Statements	17-33
Required Supplementary Information:	
Schedule of Proportionate Share of Net Pension Liability	34
Schedule of Contributions	35
Notes to Required Supplementary Information	36
Combining Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	37
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	38

II. COMPLIANCE SECTION

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39 and 40
Schedule of Findings and Responses	41 and 42



INDEPENDENT AUDITOR'S REPORT

**To the Members of the Board
of Cherokee Charter Academy
Canton, Georgia**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **Cherokee Charter Academy** (the "Academy"), as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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.

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 auditor's 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 auditor considers internal control relevant to the entity's 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 the entity's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Cherokee Charter Academy, as of June 30, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund for the fiscal 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 the management's discussion and analysis on pages 4-8, the Schedule of Proportionate Share of Net Pension Liability on page 34, and the Schedule of Contributions on page 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 opinions on the financial statements that collectively comprise the Cherokee Charter Academy's basic financial statements. The combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements and schedules (the "supplementary information") is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 the Academy's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
October 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Cherokee Charter Academy (the "Academy"), we offer readers of the Academy's basic financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal years ended June 30, 2018 and 2017.

Management's discussion and analysis is included at the beginning of the Academy's basic financial statements to provide, in layman's terms, the current position of the Academy's financial condition. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplementary information.

FINANCIAL HIGHLIGHTS

Our basic financial statements provide these insights into the results of this year's operations:

- The net position (deficit) of the Academy as of June 30, 2018 was \$(2,913,379), as compared to net position (deficit) of \$(2,581,514) as of June 30, 2017.
- As of June 30, 2018, the Academy has a fund balance of \$1,087,499, as compared to \$1,582,816 as of June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements are comprised of three components: 1) government-wide basic financial statements, 2) fund basic financial statements, and 3) notes to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of the Academy's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected revenues and services rendered but unpaid).

CHEROKEE CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

The government-wide financial statements include all governmental activities that are principally supported by grants and entitlements from the state for full-time equivalent funding. The Academy does not have any business-type activities. The governmental activities of the Academy primarily include instruction and instructional support services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide basic financial statements, governmental fund basic financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Academy's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Academy's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Academy maintains several individual governmental funds. Information is presented in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances. The General Fund is considered to be the Academy's major fund.

The Academy adopts an annual budget for its governmental funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

Agency Fund

In addition, the Academy has one agency fund which is a student activity fund. This fund is formed for educational and Academy purposes. The assets and liabilities of this Fund are not included in the government-wide statement of net position.

Notes to Basic Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

CHEROKEE CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the Academy's seventh year of operations. The Academy's net position (deficit) was \$(2,913,379) at June 30, 2018. This amount represents net investment in capital assets of \$175,795 and unrestricted net position (deficit) of \$(3,089,174). The Academy's net position was \$(2,581,514) at June 30, 2017 and of this amount \$196,621 represents net investment in capital assets and \$(2,778,135) represents unrestricted net position (deficit).

Our analysis in the table below focuses on the net position of the Academy's governmental activities:

Cherokee Charter Academy Net Position (Deficit)		
	June 30, 2018	June 30, 2017
ASSETS		
Current and other assets	\$ 1,460,013	\$ 2,045,042
Capital assets, net of depreciation	175,795	196,621
Total assets	<u>1,635,808</u>	<u>2,241,663</u>
DEFERRED OUTFLOW OF RESOURCES	<u>999,173</u>	<u>1,556,130</u>
LIABILITIES		
Current liabilities	349,206	415,259
Long-term liabilities	<u>4,543,025</u>	<u>5,753,223</u>
Total liabilities	<u>4,892,231</u>	<u>6,168,482</u>
DEFERRED INFLOW OF RESOURCES	<u>656,129</u>	<u>210,825</u>
NET POSITION		
Net investment in capital assets (deficit)	175,795	196,621
Unrestricted	<u>(3,089,174)</u>	<u>(2,778,135)</u>
Total net position (deficit)	<u><u>\$(2,913,379)</u></u>	<u><u>\$(2,581,514)</u></u>

CHEROKEE CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

Governmental Activities

The results of the current year's operations for the Academy as a whole are reported in the statement of activities. The table below provides a condensed presentation of the Academy's revenues and expenses for fiscal years ended June 30, 2018 and 2017:

Cherokee Charter Academy Change in Net Position (Deficit)		
	June 30, 2018	June 30, 2017
REVENUES:		
General revenues	\$ 3,503,588	\$ 3,339,223
Charges for services	161,845	202,580
Operating grants and contributions	<u>3,682,429</u>	<u>4,334,125</u>
Total revenues	<u>7,347,862</u>	<u>7,875,928</u>
FUNCTIONS/PROGRAM		
EXPENSES:		
Instruction	4,229,741	4,466,152
Support services	3,358,975	3,582,119
Community service operations	<u>91,011</u>	<u>83,781</u>
Total expenses	<u>7,679,727</u>	<u>8,132,052</u>
Change in net position	<u><u>\$ (331,865)</u></u>	<u><u>\$ (256,124)</u></u>

The Academy had a decrease in total revenues compared to the previous year mainly due to a decrease in state funding. The Academy received Hold Harmless funding in the previous year of approximately \$354,000 that was not received in the current year. Total expenses decreased due to savings in instructional spending and support services. The Academy ended the year with a change in net position (deficit) that was approximately \$76,000 lower than the previous year.

CHEROKEE CHARTER ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

GOVERNMENTAL FUND EXPENSES

In the table below, we have presented the cost of the largest functions/programs as a percentage of total governmental expenses:

Functions/Programs	2018		2017	
	Expenses	Percent	Expenses	Percent
Governmental expenses:				
Instruction	\$ 4,229,741	55%	\$ 4,466,152	55%
Support Services				
Pupil services	277,157	4%	266,827	3%
School and general administration	623,722	8%	673,594	8%
Business administration	19,217	0%	133,362	2%
Maintenance and operation of plant	2,095,281	27%	2,164,522	26%
Central Support Services	122,459	2%	125,589	2%
All other functions/programs	312,150	4%	302,006	4%
 Total governmental expenses	 \$ 7,679,727	 100%	 \$ 8,132,052	 100%

CAPITAL ASSETS

At June 30, 2018, the Academy had capital assets of \$175,795, net of accumulated depreciation, invested in buildings, furniture and equipment and computer equipment compared to \$196,621 at June 30, 2017.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues were favorable to budget by approximately \$196,000. The Academy ended the year with higher state funding than anticipated which was offset by an unfavorable variance in local funding due to lower participation in before and aftercare and food service programs. Total expenditures were higher than budgeted mainly due to higher personnel costs resulting in an unfavorable variance in instructional expenditures. Overall, the Academy ended the year with a change in fund balance that was favorable to the budget by approximately \$9,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Total per student revenue is anticipated to increase due to increased base funding and the inclusion of HB 787. Grant revenue will remain at fiscal year 2018 levels. A 2% merit increase for all staff is included. All other expenditures are budgeted in alignment with enrollment changes and the school's strategic objectives.

REQUESTS FOR INFORMATION

If you have questions about this report or need additional information, please contact Hillary Daigle, Vice President of Finance; Charter Schools USA; 800 Corporate Drive, Suite 700; Fort Lauderdale, Florida 33334.

CHEROKEE CHARTER ACADEMY

**STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities
<hr/>	
<u>ASSETS</u>	
Cash and cash equivalents	\$ 770,230
Accounts receivable	31,164
Due from other governments	618,128
Prepaid items	20,806
Deposits	19,685
Capital assets (depreciable, net of accumulated depreciation)	175,795
Total assets	<u>1,635,808</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Pension related items	<u>999,173</u>
Total deferred outflows of resources	<u>999,173</u>
 <u>LIABILITIES</u>	
Accounts payable	18,199
Salaries and benefits payable	322,238
Due to management company	8,769
Net pension liability	4,508,796
Compensated absences, due in one year	25,672
Compensated absences, due in more than one year	8,557
Total liabilities	<u>4,892,231</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Pension related items	<u>656,129</u>
Total deferred inflows of resources	<u>656,129</u>
 <u>NET POSITION (DEFICIT)</u>	
Investment in capital assets	175,795
Unrestricted (deficit)	<u>(3,089,174)</u>
Total net position (deficit)	<u><u>\$ (2,913,379)</u></u>

The accompanying notes are an integral part of these financial statements.

CHEROKEE CHARTER ACADEMY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 4,229,741	\$ -	\$ 3,084,635	\$ (1,145,106)
Support services				
Pupil services	277,157	-	-	(277,157)
Improvement of instructional services	33,641	-	8,447	(25,194)
General administration	34,638	-	58,252	23,614
School administration	589,084	-	213,699	(375,385)
Business administration	19,217	-	122	(19,095)
Maintenance and operation of plant	2,095,281	-	235,622	(1,859,659)
Food services	187,498	69,858	81,652	(35,988)
Central support services	122,459	-	-	(122,459)
Community service operations	91,011	91,987	-	976
Total governmental activities	\$ 7,679,727	\$ 161,845	\$ 3,682,429	(3,835,453)
General revenues:				
State supplement				3,502,600
Unrestricted investment earnings				346
Miscellaneous				642
Total general revenues				3,503,588
Change in net position				(331,865)
Net position (deficit) - beginning of fiscal year				(2,581,514)
Net position (deficit) - end of fiscal year				\$ (2,913,379)

The accompanying notes are an integral part of these financial statements.

CHEROKEE CHARTER ACADEMY

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 770,230	\$ -	\$ 770,230
Accounts receivable	31,164	-	31,164
Due from other governments	618,128	-	618,128
Deposits	19,685	-	19,685
Prepaid items	20,806	-	20,806
Total assets	<u>\$ 1,460,013</u>	<u>\$ -</u>	<u>\$ 1,460,013</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts payable	\$ 18,199	\$ -	\$ 18,199
Due to management company	8,769	-	8,769
Salaries and benefits payable	322,238	-	322,238
Total liabilities	<u>349,206</u>	<u>-</u>	<u>349,206</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable revenues	23,308	-	23,308
Total deferred inflows of resources	<u>23,308</u>	<u>-</u>	<u>23,308</u>
<u>FUND BALANCES</u>			
Nonspendable:			
Prepaid items	20,806	-	20,806
Deposits	19,685	-	19,685
Unassigned	1,047,008	-	1,047,008
Total fund balance	<u>1,087,499</u>	<u>-</u>	<u>1,087,499</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,460,013</u>	<u>\$ -</u>	<u>\$ 1,460,013</u>

The accompanying notes are an integral part of these financial statements.

CHEROKEE CHARTER ACADEMY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total fund balance - governmental funds	\$	1,087,499
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Historical cost of capital assets	\$	1,219,668	
Less accumulated depreciation		<u>(1,043,873)</u>	
Total capital assets			175,795

The net pension liability is not due and payable in the current period and is therefore not reported in governmental funds, along with related amounts.

Net pension liability	\$	(4,508,796)	
Deferred outflows of resources - pension items		999,173	
Deferred inflows of resources - pension items		<u>(656,129)</u>	(4,165,752)

Receivables not collected within 60 days of fiscal year-end are not considered available and are deferred inflows of resources on the governmental funds' balance sheet but are recognized as revenue on the government-wide statement of net position.

23,308

Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.
Long-term liabilities at year-end consist of:

Compensated absences		<u>(34,229)</u>	
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Net position (deficit) of governmental activities	\$	<u><u>(2,913,379)</u></u>
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The accompanying notes are an integral part of these financial statements.

CHEROKEE CHARTER ACADEMY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>REVENUES</u>			
Local funds	\$ 91,987	\$ 69,858	\$ 161,845
State funds	6,905,479	19,087	6,924,566
Federal funds	-	284,122	284,122
Miscellaneous	642	-	642
Investment earnings	346	-	346
Total revenues	<u>6,998,454</u>	<u>373,067</u>	<u>7,371,521</u>
<u>EXPENDITURES</u>			
Current			
Instruction	4,121,667	189,329	4,310,996
Support services:			
Pupil services	286,904	-	286,904
Improvement of instructional services	25,194	8,447	33,641
General administration	34,638	-	34,638
School administration	608,697	-	608,697
Business administration	19,217	-	19,217
Maintenance and operation of plant	2,084,371	-	2,084,371
Food services	16,901	170,597	187,498
Central Support Services	124,226	-	124,226
Other outlays	91,011	-	91,011
Capital outlays - instruction	80,945	4,694	85,639
Total expenditures	<u>7,493,771</u>	<u>373,067</u>	<u>7,866,838</u>
Net change in fund balance	(495,317)	-	(495,317)
Fund balance - beginning of fiscal year	<u>1,582,816</u>	<u>-</u>	<u>1,582,816</u>
Fund balance - end of fiscal year	<u>\$ 1,087,499</u>	<u>\$ -</u>	<u>\$ 1,087,499</u>

The accompanying notes are an integral part of these financial statements.

CHEROKEE CHARTER ACADEMY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Total net change in fund balance - governmental funds	\$	(495,317)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay		85,639
Depreciation expense		(106,465)

Contributions to the pension plan in the current fiscal year are not included as a reduction of net position on the statement of activities.		585,219
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(23,659)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		10,165
Pension expenses		(387,447)

Change in net position of governmental activities	\$	<u>(331,865)</u>
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The accompanying notes are an integral part of these financial statements.

CHEROKEE CHARTER ACADEMY

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL (GAAP)

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL AMOUNTS</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
<u>REVENUES</u>				
State funds	\$ 6,596,493	\$ 6,596,493	\$ 6,905,479	\$ 308,986
Local funds	206,013	206,013	91,987	(114,026)
Miscellaneous	-	-	642	642
Investment earnings	37	37	346	309
Total revenues	<u>6,802,543</u>	<u>6,802,543</u>	<u>6,998,454</u>	<u>195,911</u>
<u>EXPENDITURES</u>				
Current				
Instruction	3,733,657	3,733,657	4,121,667	(388,010)
Support services:				
Pupil services	294,923	294,923	286,904	8,019
Improvement of instructional services	11,077	11,077	25,194	(14,117)
General administration	38,285	38,285	34,638	3,647
School administration	665,473	665,473	608,697	56,776
Business administration	26,894	26,894	19,217	7,677
Food services	78,387	78,387	16,901	61,486
Maintenance and operation of plant	2,117,893	2,117,893	2,084,371	33,522
Central support services	128,017	128,017	124,226	3,791
Other outlays	94,746	94,746	91,011	3,735
Capital outlays - instruction	117,350	117,350	80,945	36,405
Total expenditures	<u>7,306,702</u>	<u>7,306,702</u>	<u>7,493,771</u>	<u>(187,069)</u>
Net change in fund balance	(504,159)	(504,159)	(495,317)	8,842
Fund balances - beginning	<u>1,582,816</u>	<u>1,582,816</u>	<u>1,582,816</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,078,657</u>	<u>\$ 1,078,657</u>	<u>\$ 1,087,499</u>	<u>\$ 8,842</u>

The accompanying notes are an integral part of these financial statements.

CHEROKEE CHARTER ACADEMY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

JUNE 30, 2018

	ASSETS	Agency Fund
		<hr/>
Cash		\$ 14,058
		<hr/>
	LIABILITIES	
Funds held for others		\$ 14,058
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The accompanying notes are an integral part of these financial statements.

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: DESCRIPTION OF ACADEMY AND REPORTING ENTITY

REPORTING ENTITY

Cherokee Charter Academy, Inc. (the "Organization"), a not-for-profit organization organized under the laws of the State of Georgia doing business as Cherokee Charter Academy (the "Academy") is approved to provide educational services to students from kindergarten to eighth grade. The governing body of the Academy is comprised of a six-member Board of Directors. The Academy operates under a charter with the State Charter School Commission of Georgia (the "Commission"), which is effective until June 30, 2018.

The Academy is located in Canton, Georgia providing education for over 854 students in grades kindergarten through eighth grade.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Academy. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Board does not consider any of its activities to be business-type activities.

Government-wide Statements:

The Statement of Net Position and the Statement of Activities display information about the financial activities of the overall Academy. Governmental activities generally are financed through intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Academy's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the Academy related to the administration and support of the Academy's programs, such as office and maintenance personnel and accounting) are not allocated to programs.
- Program revenues include: (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Internally dedicated resources are reported as general revenues rather than as program revenues. Revenues that are not classified as program revenues are presented as general revenues.

**CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

In the Statement of Net Position, equity is reported as net position and consists of net investment in capital assets, amounts restricted by outside parties for specific purposes (if any), and unrestricted amounts. The net investment in capital assets is calculated by taking the capital assets, net of accumulated depreciation, less any related long-term financing arrangements, and adding back in any unspent bond or contract proceeds.

Fund Financial Statements:

The fund financial statements provide information about the Academy's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Academy reports only one major governmental fund:

- The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

Additionally, the Academy reports the following non-major funds:

- The special revenue funds account for certain revenue sources that are legally restricted or committed to expenditure for specific purposes. Restricted revenues consist of federal and state grants.

The Academy reports the following fiduciary fund type:

- The agency fund accounts for assets held by the Academy as an agent for student activity groups or individuals as it relates to the clubs and organizations of the school.

The effect of interfund activity has been eliminated from the government-wide financial statements.

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The basis of accounting determines when transactions are reported on the financial statements. The government-wide governmental financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenues are recognized in the fiscal year in which they are earned. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Academy uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Academy considers all revenues reported in the governmental funds to be available if they are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they have matured and other long-term obligations which are recognized when due and payable. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

The Agency Funds utilize the accrual basis of accounting, similar to the government-wide statements, but do not have a measurement focus as they do not measure operations.

The Academy funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted net positions available to finance the program. It is the Academy's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

The State of Georgia reimburses the Academy for teachers' salaries and operating costs through the Quality Basic Education (QBE) Formula Earnings program. State of Georgia law defines the formula driven grant that determines the cost of an academic school year and the State of Georgia's share in this cost. Generally teachers are contracted for the school year (July 1 – June 30) and paid over a twelve month contract period, which for the Academy runs from July 16 through July 15. In accordance with the requirements of the enabling legislation of the QBE program, the State of Georgia reimburses the Academy over the same twelve month period in which teachers are paid, funding the academic school year expenditures. At June 30, the amount of teachers' salaries incurred but not paid until July and August of the subsequent year are accrued as the State of Georgia has only postponed the final payment of their share of the cost until the subsequent appropriations for cash management purposes. By June 30 of each year, the State of Georgia has a signed appropriation that includes this final amount, which represents the State of Georgia's intent to fund this final payment. Based on guidance in Government Accounting Standards Board (GASB) Statement No. 33, paragraph 74, the State of Georgia recognizes its QBE liability for the July salaries at June 30, and the Academy recognizes the same QBE as a receivable and revenue, consistent with symmetrical recognition.

Grant revenues, state Quality Basic Education (QBE) revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period if availability criteria is met. All other revenue items are considered to be measurable and available only when cash is received by the government.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

RECEIVABLES

Receivables, which include amounts due from other governments, consist of amounts due from the various entities disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded on the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

**CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

INTERFUND RECEIVABLES AND PAYABLES

During the course of its operations, the Academy makes transfers between funds to finance operations, provide services and acquire assets. To the extent that certain transfers between funds had not been received as of year end, balances of interfund amounts receivable or payable have been recorded.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

CAPITAL ASSETS

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase (including ancillary charges). On the government-wide financial statements, all purchased capital assets are valued at cost. The Academy maintains a capitalization threshold of \$750 and a useful life over one year. Donated capital assets are recorded at estimated acquisition cost on the date donated. Disposals are deleted at depreciated recorded cost. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. The Academy does not capitalize book collections or works of art. Depreciation is used to allocate the actual or estimated historical cost of all capital assets over estimated useful lives.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Furniture and equipment	3-5 years
Computer equipment	3 years
Leasehold improvements	10 years

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM LIABILITIES

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

COMPENSATED ABSENCES

It is the Academy's policy to permit employees to accumulate earned but unused paid time off benefits. All paid time off pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

DEFERRED INFLOWS/OUTFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Governmental Activities report four types of deferred outflows of resources related to the reporting of the net pension liability. The deferred outflows of resources being recognized are: (1) a deferred outflow of resources for changes in the Academy's proportionate share for the net pension liability and the difference between the Academy's actual contributions towards the pension plan and the Academy's proportionate share of contributions; (2) differences between expected and actual experience of the Plan; (3) changes in the Plan's assumptions; and (4) the Academy's actual contributions to the pension plan during the fiscal year ended June 30, 2018 which is after the measurement date and will be applied to the next future measurement period. The remaining deferred outflows will be amortized over the remaining service period of plan members.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy has four items that qualify for reporting in this category, three of which occur only in the governmental activities. The Governmental Activities report a deferred inflow of resources for: (1) changes in the Academy's proportionate share for the net pension liability and the difference between the Academy's actual contributions towards the pension plan and the Academy's proportionate share of contributions; (2) the net difference between projected and actual investment earnings on the pension assets; and (3) experience gains or losses resulting from periodic studies by the Academy's actuary which adjust the net pension liability for actual experience for certain trend information that was previously assumed. These deferred inflows are amortized over the remaining service lives of plan members.

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DEFERRED INFLOWS/OUTFLOWS OF RESOURCES (Continued)

The Academy has one type of deferred inflow under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from intergovernmental revenues and these amounts are deferred and will be recognized as an inflow of resources in the period in which the amounts become available.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Retirement System of Georgia (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

FUND EQUITY

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

Fund Balance - The Academy recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the Academy and is fiscally advantageous for the Academy. The policy adopted establishes guidance concerning the desired level of fiscal year end fund balance to be maintained by the Academy and the management of fund balance levels and is applicable only to the General Fund of the Academy.

Fund balance is a measurement of available financial resources defined as the difference between total assets/deferred outflows and total liabilities/deferred inflows in each fund.

The Governmental Accounting Standards Board (GASB) Statement 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported in the classifications on the following page:

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND EQUITY (Continued)

Non spendable— Fund balance reported as “non spendable” represents fund balance associated with inventory, prepaid items, long-term amounts of loans and notes receivable, property held for resale (however, if the use of the proceeds from the collection of receivables or sale of the property is restricted, committed, or assigned, then the receivables or property should be reported in those categories), and corpus of a permanent fund (legally/contractually required to be maintained).

Restricted— Fund balance reported as “restricted” represents amounts that can be spent only on the specific purposes stipulated by law or by the external providers of those resources (such as bond resolutions and covenants and grant agreements).

Committed— Fund balance reported as “committed” includes amounts that can be used only for the specific purposes determined by a formal action of the Board. The Board as the highest level of decision making authority will have the sole authority to commit fund balance. Constraints can be removed or changed only by the Board through a formal resolution voted on by the Board. Actions to constrain resources should occur prior to the end of the Academy’s fiscal year, though the exact amount may be determined subsequently.

Assigned— Fund balance reported as “assigned” represents amounts intended to be used for specific purposes, but not meeting the criteria to be reported as committed or restricted fund balance. The intent is expressed by the Board. If these funds should have a deficit fund balance, those deficits are required to be reported as unassigned fund balance. The Board will have the authority under this policy to assign funds for a particular purpose.

Unassigned— Fund balance reported as “unassigned” represents the residual classification of fund balance and includes all spendable amounts not contained within the other classifications.

If expenditures incurred exceed the amounts that have been restricted, committed, and assigned to a specific purpose and results in a negative residual amount for that specific purpose, amounts assigned to other purposes in that governmental fund are reduced to eliminate the deficit.

The Academy applies restricted resources first when an expenditure/expense is incurred for purposes for which both restricted and unrestricted equity is available. If restricted resources are not available, the Academy’s policy is to use committed first, then assigned funds, and lastly the unassigned.

**CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred inflows of resources, deferred outflows of resources, and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Academy adopts an annual budget for its General Fund on the modified accrual basis of accounting. The budget is prepared in accordance with provisions of the Quality Basic Education Act, OCGA Section 20-2-167. After the Academy has tentatively adopted the budget, such budget is advertised at least one time in a local newspaper of general circulation. At the next regular meeting of the Board after advertisement, the budget is revised as necessary and adopted as the final budget.

The following General Fund functions had excesses of actual expenditures over appropriations in the amount shown for the fiscal year ended June 30, 2018.

Instruction	\$ 388,010
Support services:	
Improvement of instructional services	14,117

These excess expenditures were funded with savings in other functions, and revenues collected in excess of anticipated levels.

NOTE 4: DEPOSITS AND INVESTMENTS

COLLATERALIZATION OF DEPOSITS

Official Code of Georgia Annotated (OCGA) Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110 percent of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (OCGA 45-8-13.1), the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110 percent of the daily pool balance.

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4: DEPOSITS AND INVESTMENTS (Continued)

COLLATERALIZATION OF DEPOSITS (Continued)

Custodial credit risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Academy will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be covered by depository insurance or pledged securities. Amounts that exceed standard depository insurance limits are required to be collateralized either (1) individually by the financial institutions through pledged obligations of the U.S. Government, obligations backed by the full faith and credit of the U.S. Government, obligations of the State of Georgia or other states, or obligations of counties, municipalities, or public authorities of the State of Georgia, or (2) participation in the State of Georgia Secure Deposit Program. As of June 30, 2018, the financial institution holding all of the Academy's deposits is a participant in the State of Georgia Secure Deposit Program, which is administered by the Office of the State Treasurer, requires participating banks holding deposits of public funds to pledge collateral at varying rates depending on the tier assigned by the State. As of June 30, 2018, all of the Academy's bank balances were insured and/or collateralized as defined by GASB and required by State Statutes.

Acceptable security for deposits consists of any one of or any combination of the following:

- (1) Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia,
- (2) Insurance on accounts provided by the Federal Deposit Insurance Corporation,
- (3) Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia,
- (4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,
- (5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
- (6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
- (7) Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States Government, which are fully guaranteed by the United States Government both as to principal and interest or debt obligations issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5: RECEIVABLES

Intergovernmental receivables consist of grant reimbursements due from federal, state or other grantors for expenditures made but not yet reimbursed. The Georgia Department of Education is the main government agency from which these grants are receivable as of June 30, 2018.

NOTE 6: CAPITAL ASSETS

The following is a summary of changes in the capital assets during the fiscal year:

	Balances			Balances	
	June 30, 2017	Increases	Decreases	June 30, 2018	
Governmental Activities					
Capital assets, being depreciated:					
Furniture, fixtures, and equipment	\$ 368,056	\$ 8,921	\$ -	\$ 376,977	
Computer equipment	656,877	76,718	-	733,595	
Leasehold improvements	109,096	-	-	109,096	
Total	1,134,029	85,639	-	1,219,668	
Less accumulated depreciation for:					
Furniture, fixtures, and equipment	311,888	28,040	-	339,928	
Computer equipment	581,085	67,515	-	648,600	
Leasehold improvements	44,435	10,910	-	55,345	
Total	937,408	106,465	-	1,043,873	
Governmental activities capital assets, net	\$ 196,621	\$ (20,826)	\$ -	\$ 175,795	

Current fiscal year depreciation expense by function is as follows:

Instruction	\$ 95,555
Maintenance of Operations and Plant	10,910
	<u>\$ 106,465</u>

NOTE 7: RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees; and acts of God.

The Academy has obtained commercial insurance for risk of loss associated with torts, assets, errors or omissions, job related illness or injuries to employees and acts of God. The Academy has neither significantly reduced coverage for these risks nor incurred losses (settlements) which exceeded the Academy's insurance coverage in any of the past three fiscal years.

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8: LONG-TERM DEBT AND OBLIGATIONS

The changes in long-term debt and obligations during the fiscal year ended June 30, 2018, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>	<u>Due In More Than One Year</u>
Governmental activities:						
Compensated absences	\$ 44,394	\$ 91,981	\$ (102,146)	\$ 34,229	\$ 25,672	\$ 8,557
Net pension liability	5,708,829	529,927	(1,729,960)	4,508,796	-	4,508,796
Governmental activities Long-term liabilities	<u>\$ 5,753,223</u>	<u>\$ 621,908</u>	<u>\$ (1,832,106)</u>	<u>\$ 4,543,025</u>	<u>\$ 25,672</u>	<u>\$ 4,517,353</u>

The compensated absences and the net pension liability are liquidated through the General Fund.

NOTE 9: SIGNIFICANT CONTINGENT LIABILITIES

COMMITMENTS AND CONTINGENCY

Amounts received or receivable principally from the Federal government are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. The Academy believes that such disallowances, if any, will be immaterial to its overall financial position.

MANAGEMENT SERVICE COMMITMENT

The Academy entered into a formal agreement with Charter Schools USA at Cherokee, LLC to manage, staff, and operate the Academy. The agreement expires in June 2023 or the termination date of the charter, if not renewed. The contract may be cancelled by either party. Under this agreement the management company is entitled to compensation for its services in an amount not to exceed 15% of revenues which shall be approved by the Board in the budget. During the year ended June 30, 2018, the Academy made no payments for fees to the management company, and reports no liabilities to the management company due to reporting a decrease in fund balance.

**CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9: SIGNIFICANT CONTINGENT LIABILITIES (CONTINUED)

OPERATING LEASE AGREEMENT

The Academy has entered to a non-cancellable lease agreement for the building which the school utilizes. The lease period extends through June 30, 2034 with a company affiliated with the management company. The lease payments made during the fiscal year ended June 30, 2018 were \$1,308,475. The terms of the lease are adjusted each year, effective July 1, to adjust the lease rental payments by the changes in the Wall Street Journal published Consumer Price Index. The adjusted annual rental payment for the fiscal year ended June 30, 2019 will reflect an increase of 1.03%. Based on the current adjustment the future minimum lease payments would be as follows:

<u>Year Ending June 30,</u>	<u>Annual Lease Payments</u>
2019	\$ 1,324,525
2020	1,362,559
2021	1,401,686
2022	1,441,936
2023	1,483,342
2024-2028	8,080,626
2029-2033	9,309,393
2034	2,025,299
Total	<u><u>\$ 26,429,366</u></u>

NOTE 10: RETIREMENT PLANS

GENERAL INFORMATION ABOUT THE TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS)

Plan description: All teachers of the Academy as defined in §47-3-60 of the *Official Code of Georgia Annotated* (O.C.G.A.) are provided a pension through the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple-employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. TRS issues a publicly available financial report that can be obtained at www.trsga.com/publications.

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10: RETIREMENT PLANS (CONTINUED)

GENERAL INFORMATION ABOUT THE TEACHERS RETIREMENT SYSTEM OF GEORGIA (TRS) (Continued)

Benefits provided: TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

Contributions: Per Title 47 of the *O.C.G.A.*, contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6.00 % of their annual pay during fiscal year 2018. The Academy's contractually required contribution rate for the year ended June 30, 2018 was 16.81% of annual Academy payroll. Academy contributions to TRS were \$585,219 for the year ended June 30, 2018.

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2018, the Academy reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2017 was determined using standard roll-forward techniques. The Academy's proportion of the net pension liability was based on contributions to TRS during the fiscal year ended June 30, 2017. At June 30, 2017, the Academy's proportion was 0.024260%, which was a decrease of 0.003411% from its proportion measured as of June 30, 2016.

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10: RETIREMENT PLANS (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (Continued)

For the year ended June 30, 2018, the Academy recognized pension expense of \$387,447. At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 31,028
Differences between expected and actual experience	168,657	17,016
Changes in proportion and differences between Academy contributions and proportionate share of contributions	146,459	608,085
Changes of assumption	98,838	-
Academy contributions subsequent to the measurement date	585,219	-
Total	<u>\$ 999,173</u>	<u>\$ 656,129</u>

Academy contributions subsequent to the measurement date of \$585,219 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending 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	\$ (88,040)
2020	116,317
2021	(25,288)
2022	(236,332)
2023	(8,832)
Total	<u>\$ (242,175)</u>

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10: RETIREMENT PLANS (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (Continued)

Actuarial assumptions: The total pension liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.25 – 9.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Post-retirement benefit increases	1.50% semi-annually

Post-retirement mortality rates were based on the RP-2000 White Collar Mortality Table with future mortality improvement projected to 2025 with the Society of Actuaries' projection scale BB (set forward one year for males) for service retirements and depended beneficiaries. The RP-2000 Disable Mortality Table with future mortality improvement projected to 2025 with Society of Actuaries' projection scale BB (set forward two years for males and four years for females) was used for death after disability retirement. There is a margin for future mortality improvement on the tables used by the System. Based on the results of the most recent experience study adopted by the Board on November 18, 2015, the numbers of expected future deaths are 8-11% less than the actual number of deaths that occurred during the study period for healthy retirees and 9-11% less than expected under the selected table for disabled retirees. Rates of mortality in active service were based on the RP-2000 Employee Mortality Table projected to 2025 with projection scale BB.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the table on the following page:

CHEROKEE CHARTER ACADEMY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10: RETIREMENT PLANS (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (Continued)

Asset class	Target allocation	Long-term expected real rate of return*
Fixed income	30.00%	(0.50)%
U.S. large equities	39.80	9.00
U.S. mid equities	3.70	12.00
U.S. small equities	1.50	13.50
International developed market equities	19.40	8.00
International emerging market equities	5.60	12.00
Total	100.00%	

* Rates shown are net of the 2.75% assumed rate of inflation

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and State of Georgia contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan 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 Academy's proportionate share of the net pension liability to changes in the discount rate: The following presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current discount rate (7.50%)	1% Increase (8.50%)
Academy's proportionate share of the net pension liability	\$ 7,399,463	\$ 4,508,796	\$ 2,127,536

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report which is publically available at www.trsga.com/publications.

REQUIRED SUPPLEMENTARY INFORMATION

**CHEROKEE CHARTER ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
TEACHERS RETIREMENT SYSTEM OF GEORGIA
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	2018	2017	2016	2015	2014
Academy's proportion of the net pension liability	0.024260%	0.027671%	0.028538%	0.029168%	0.025926%
Academy's proportionate share of the net pension liability	\$ 4,508,789	\$ 5,708,829	\$ 4,344,627	\$ 3,684,992	\$ 4,517,574
Academy's covered-employee payroll	\$ 2,451,682	\$ 3,035,256	\$ 2,661,479	\$ 2,560,771	\$ 2,059,776
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	183.91%	188.08%	163.24%	143.90%	219.32%
Plan fiduciary net position as a percentage of the total pension liability	79.33%	76.06%	81.44%	84.03%	Not available

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**CHEROKEE CHARTER ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
TEACHERS RETIREMENT SYSTEM OF GEORGIA
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contributions	\$ 585,219	\$ 349,855	\$ 433,131	\$ 379,793	\$ 365,422	\$ 293,930	\$ 215,544
Contributions in relation to the contractually required contributions	<u>585,219</u>	<u>349,855</u>	<u>433,131</u>	<u>379,793</u>	<u>365,422</u>	<u>293,930</u>	<u>215,544</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	3,481,374	2,451,682	3,035,256	2,661,479	2,560,771	2,059,776	1,510,470
Contributions as a percentage of covered-employee payroll	16.810%	14.270%	14.270%	13.150%	12.280%	11.410%	10.280%

Note: The Academy's first year of operations was the fiscal year ended June 30, 2012.

CHEROKEE CHARTER ACADEMY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Changes of assumptions : In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables from the 1994 Group Annuity Mortality Table. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. On November 18, 2015 the Board adopted recommended changes to the economic and demographic assumptions utilized by the System. Primary among the changes were the updates to rates of mortality, retirement, disability, withdrawal and salary increases. The expectation of retired life mortality was changed to RP-2000 White Collar Mortality Table with future mortality improvement projected to 2025 with the Society of Actuaries' projection scale BB (set forward one year for males).

Method and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported (June 30 , 2018 employer contributions were determined in the June 30, 2015 valuation). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Valuation date	June 30, 2015
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	28.4 years
Asset valuation method	Five-year smoothed market
Inflation rate	2.75%
Salary increases	3.25 – 9.00%, including inflation
Post-Retirement Benefit Increases	1.50% semi-annually
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

CHEROKEE CHARTER ACADEMY
NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Title I Fund – This fund is used to account for the Academy’s federally funded Title I grant revenues and the related expenditures.

Title II Fund – This fund is used to account for the Academy’s federally funded Title II grant revenues and the related expenditures.

School Lunch Program Fund – This fund is used to account for the Academy’s federally funded grants and charges to students for the operation and service of the school lunch program.

Special Education Fund – This fund is used to account for the Academy’s federally funded Title VI-B Individuals with Disabilities in Education Act (IDEA) grant revenues and the related expenditures.

CHEROKEE CHARTER ACADEMY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>Title I Fund</u>	<u>Title II Fund</u>	<u>School Lunch Program Fund</u>	<u>Special Education Fund</u>	<u>Total</u>
<u>ASSETS</u>					
Due from other governments	\$ -	\$ -	\$ -	\$ -	\$ -
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-
<u>FUND BALANCES</u>					
Fund balance	-	-	-	-	-
Total fund balance	-	-	-	-	-
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CHEROKEE CHARTER ACADEMY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>Title I Fund</u>	<u>Title II Fund</u>	<u>School Lunch Program Fund</u>	<u>Special Education Fund</u>	<u>Total</u>
REVENUES					
Local funds	\$ -	\$ -	\$ 69,858	\$ -	\$ 69,858
State funds	-	-	19,087	-	19,087
Federal funds	69,433	5,704	81,652	127,333	284,122
Total revenues	<u>69,433</u>	<u>5,704</u>	<u>170,597</u>	<u>127,333</u>	<u>373,067</u>
EXPENDITURES					
Current					
Instruction	61,996	-	-	127,333	189,329
Support services:					
Improvement of instructional services	2,743	5,704	-	-	8,447
Food services	-	-	170,597	-	170,597
Capital outlay:	4,694	-	-	-	4,694
Total expenditures	<u>69,433</u>	<u>5,704</u>	<u>170,597</u>	<u>127,333</u>	<u>373,067</u>
Net change in fund balance	-	-	-	-	-
Fund balance - beginning of fiscal year	-	-	-	-	-
Fund balance - end of fiscal year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COMPLIANCE SECTION



**INDEPENDENT AUDITOR'S 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***

**To the Members of the Board
of Cherokee Charter Academy
Canton, Georgia**

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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Cherokee Charter Academy (the "Academy"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Cherokee Charter Academy's basic financial statements, and have issued our report thereon dated October 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion of the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses, as item 2018-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from 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*.

Academy's Response to the Finding

The Academy's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Mauldin & Jenkins, LLC

Atlanta, Georgia
October 12, 2018

CHEROKEE CHARTER ACADEMY

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the
financial statements audited were prepared in
accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

 X yes no

Significant deficiencies identified?

 yes X none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

There was not an audit of major federal award programs for the fiscal year ended June 30, 2018 due to the total amount expended being less than \$750,000.

CHEROKEE CHARTER ACADEMY

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings and Responses

2018-001 Accounting for Pension Expenditures and Related Balance Sheet Accounts

Criteria: Internal controls should be in place to ensure the financial statements properly present the amounts reported as expenditures and related balance sheets in accordance with generally accepted accounting principles (GAAP).

Condition and Context: Internal controls were not sufficient to detect misstatements in the reporting of the Academy's expenditures and related balance sheet accounts for the period under audit.

Cause: During our testing of pension contributions, an audit adjustment in the General Fund of \$100,153 was required to properly report pension expenditures and the related balance sheet items. The Academy improperly reported pension expenditures as a prepaid asset for the fiscal year ended June 30, 2018, thus an adjustment was required to record the pension expenditures in the proper accounting period.

Effects: Total misstatements related to the reporting of pension expenditures and related balance sheets for the year ended June 30, 2018 was \$100,153.

Recommendation: We recommend the Academy carefully review all pension expenditures and related balances to ensure they are reported in the proper reporting period and in accordance with generally accepted accounting principles.

Auditee's Response: We concur with the finding. We will take necessary steps to ensure amounts are properly accrued in the future.