EMMANUEL COLLEGE

FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2014

WITH REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

EMMANUEL COLLEGE

INDEX TO FINANCIAL STATEMENTS

JUNE 30, 2014

ED K. BURTON, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Ed K. Burton, CPA
Alan M. Burton, CPA
T. Scott Slaton, CPA

Members American Institute of CPA's and Georgia Society of CPA's

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Emmanuel College

Report on the Financial Statements

We have audited the accompanying financial statements of Emmanuel College (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014 and June 30, 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

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 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. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emmanuel College as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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.

695 Big A Road ◊ P.O. Box 934 ◊ Toccoa, Georgia 30577 ◊ Telephone (706) 886-0461 ◊ Fax (706) 886-0201 ◊ E-mail: eburton@windstream.net

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, on our consideration of Emmanuel College'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 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 Emmanuel College's internal control over financial reporting and compliance.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the organization will continue as a going concern. As discussed in Note 21 to the financial statements, the Organization has suffered recurring losses from operations and has a net asset deficiency, which raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 21. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Ed K. Burton, LLC

Toccoa, Georgia
March 23, 2015

EMMANUEL COLLEGE
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014 AND JUNE 30, 2013

	6/30/2014	6/30/2013
Assets:		
Cash and Cash Equivalents	$ 321,231	$ 165,473
Restricted Cash	1,875,053	3,975,087
Accounts Receivable	517,175	814,848
Pledges Receivable (Net of Allowance)	124,514	393,234
Other Assets	1,088,651	1,071,731
Investments	1,561,028	2,232,852
Property and Equipment (Net)	27,507,685	26,120,784
Total Assets	$ 32,995,337	$ 34,774,009
Liabilities:		
Deposits and Prepaid Tuition	$ 269,161	$ 236,474
Accounts Payable and Accrued Liabilities	2,656,394	973,335
Notes Payable	1,158,322	1,158,322
Current Portion of Long-Term Debt	631,241	112,477
Long-Term Debt	26,926,149	25,506,044
Deferred Revenue	2,079,619	2,313,710
Total Liabilities	$ 33,720,886	$ 30,300,362
Net Assets:		
Unrestricted	$ (5,053,441)	$ 43,571
Temporarily Restricted	605,633	770,089
Permanently Restricted	3,722,259	3,659,987
Total Net Assets	$ (725,549)	$ 4,473,647
Total Liabilities and Net Assets	$ 32,995,337	$ 34,774,009

The accompanying notes are an integral part of these financial statements

EMMANUEL COLLEGE
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:				
Tuition and Fees (Net of Allowances and Discounts)	$ 6,024,918	$ -	$ -	$ 6,024,918
Investment Income	741	13,024	-	13,765
Net Realized & Unrealized Gain (Loss) on Investments	178,190	(100,609)	-	77,581
Gifts and Pledges	1,499,264	692,173	57,072	2,248,509
Auxiliary Enterprises	3,583,445	-	-	3,583,445
Other	532,297	-	-	532,297
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	763,844	(763,844)	-	-
Total Revenues, Gains and Other Support	$ 12,582,699	$ (159,256)	$ 57,072	$ 12,480,515
Expenses and Losses:				
Educational and General:				
Instructional	$ 3,575,995	$ -	$ -	$ 3,575,995
Public Support	21,859	-	-	21,859
Academic Support	443,097	-	-	443,097
Student Services	4,881,894	-	-	4,881,894
Institutional Support	5,825,095	-	-	5,825,095
Scholarships and Student Aid	257,159	-	-	257,159
Total Educational and General	$ 15,005,099	$ -	$ -	$ 15,005,099
Auxiliary Enterprises	2,674,611	-	-	2,674,611
Total Expenses and Losses	$ 17,679,710	$ -	$ -	$ 17,679,710
Change in Net Assets	$ (5,097,012)	$ (159,256)	$ 57,072	$ (5,199,196)
Net Assets at Beginning of Year as Previously Reported	$ 43,571	$ 770,089	$ 3,659,987	$ 4,473,647
Reclass of Prior Year Net Assets	-	(5,200)	5,200	-
Net Assets at Beginning of Year	$ 43,571	$ 764,889	$ 3,665,187	$ 4,473,647
Net Assets at End of Year	$ (5,053,441)	$ 605,633	$ 3,722,259	$ (725,549)

The accompanying notes are an integral part of these financial statements

EMMANUEL COLLEGE
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support:				
Tuition and Fees (Net of Allowances and Discounts)	$ 6,232,906	$ -	$ -	$ 6,232,906
Investment Income	5,531	26,171	-	31,702
Net Realized & Unrealized Gain (Loss) on Investments	110,645	21,352	-	131,997
Gifts and Pledges	1,125,447	1,047,231	37,422	2,210,100
Auxiliary Enterprises	3,140,343	-	-	3,140,343
Other	395,179	-	-	395,179
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	1,124,096	(1,124,096)	-	-
Total Revenues, Gains and Other Support	$ 12,134,147	$ (29,342)	$ 37,422	$ 12,142,227
Expenses and Losses:				
Educational and General:				
Instructional	$ 3,717,593	$ -	$ -	$ 3,717,593
Public Support	20,132	-	-	20,132
Academic Support	390,517	-	-	390,517
Student Services	4,509,742	-	-	4,509,742
Institutional Support	4,687,765	-	-	4,687,765
Scholarships and Student Aid	256,652	-	-	256,652
Total Educational and General	$ 13,582,401	$ -	$ -	$ 13,582,401
Auxiliary Enterprises	2,323,426	-	-	2,323,426
Total Expenses and Losses	$ 15,905,827	$ -	$ -	$ 15,905,827
Change in Net Assets before Other Changes	$ (3,771,680)	$ (29,342)	$ 37,422	$ (3,763,600)
Other Changes:				
Writeoff of 2010 Bonds Issuance Closing Costs	$ (206,058)	$ -	$ -	$ (206,058)
Valuation Adjustment for Interest Rate Swaps	(32,667)	-	-	(32,667)
Total Other Changes	$ (238,725)	$ -	$ -	$ (238,725)
Change in Net Assets	$ (4,010,405)	$ (29,342)	$ 37,422	$ (4,002,325)
Net Assets at Beginning of Year as Previously Reported	$ 4,053,976	$ 809,431	$ 3,612,565	$ 8,475,972
Reclass of Prior Year Net Assets	-	(10,000)	10,000	$ -
Net Assets at Beginning of Year	$ 4,053,976	$ 799,431	$ 3,622,565	$ 8,475,972
Net Assets at End of Year	$ 43,571	$ 770,089	$ 3,659,987	$ 4,473,647

The accompanying notes are an integral part of these financial statements

EMMANUEL COLLEGE
STATEMENT OF CASH FLOWS
FISCAL YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013

	6/30/2014	6/30/2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ (5,199,196)	$ (4,002,325)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Net Realized and Unrealized (Gain) Loss on Investments	(81,311)	(155,995)
Depreciation	1,071,419	913,260
Non-Cash Contribution	-	(10,000)
Abandonment Loss on Property and Equipment	-	3,598
(Gain)/Loss on Sale of Property and Equipment	-	(1,476)
(Increase) Decrease in Accounts Receivable	297,673	(577,583)
(Increase) Decrease in Pledges Receivable Temporarily Restricted	268,720	83,682
(Increase) Decrease in Inventories and Other Assets	(16,920)	(821,646)
Increase in Accounts Payable and Accrued Expenses	2,183,059	97,261
Increase (Decrease) in Deposits and Prepaid Tuition	32,687	(352,315)
Increase (Decrease) in Deferred Revenue	(234,091)	(213,898)
Increase (Decrease) in Obligations Under Interest Rate Swaps	-	(839,147)
NET CASH (USED) BY OPERATING ACTIVITIES	$ (1,677,960)	$ (5,876,585)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sale of Property and Equipment	$ -	$ 1,476
Purchases of Property and Equipment	(2,458,321)	(7,039,990)
Proceeds from Sale of Investments	1,010,003	2,881,394
Purchase of Investments	(283,540)	(23,558)
Depreciation of Investments - Buildings	26,674	26,907
NET CASH USED BY INVESTING ACTIVITIES	$ (1,705,184)	$ (4,153,771)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Notes and Bonds Payable	$ 2,900,085	$ 28,694,966
Payments on Notes and Bonds Payable	(1,461,217)	(15,880,388)
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 1,438,868	$ 12,814,578
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (1,944,276)	$ 2,784,222
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,140,560	1,356,338
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,196,284	$ 4,140,560
RECONCILIATION OF TOTAL CASH:		
Restricted	$ 1,875,053	$ 3,975,087
Unrestricted	321,231	165,473
	$ 2,196,284	$ 4,140,560
Supplemental Data:		
Interest Paid	$ 1,727,597	$ 604,305

The accompanying notes are an integral part of these financial statements

1. Summary of Significant Accounting Policies:

Organization

Emmanuel College is a private four-year college located in Franklin Springs, Georgia.

Basis of Presentation

The financial statements of Emmanuel College (the "College") have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

Classification of Net Assets

The accompanying financial statements present information regarding the College's financial position and activities according to the following net asset categories:

Unrestricted Net Assets

Unrestricted net assets represent expendable funds available for operations, which are not otherwise limited by donor restrictions.

Temporary Restricted Net Assets

Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions, contingent upon specific performance of a future event or a specific passage of time before the College can spend the funds, and earnings on endowment funds that have not yet been appropriated.

Permanently Restricted Net Assets

Permanently restricted net assets are subject to donor restrictions requiring that the assets be maintained in perpetuity. Generally, the donor of these assets permits the Organization to use all or part of the income earned and capital gain if any, on related investments for general or specific purposes.

Cash and Cash Equivalents

The College considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Included in cash and cash equivalents at June 30, 2014 are amounts restricted for payments of bond interest and principal of $1,875,053. At June 30, 2013, there are amounts from the issuance of bonds restricted for capital improvements of $2,098,785 and amounts restricted for payments of bond interest and principal of $1,876,302.

Summary of Significant Accounting Policies, (Continued)

Investments

Investments are carried at market and appraised-value, and realized and unrealized gains and losses are reflected in the statement of activities net of investment fees of $3,165. Fair market value for investments is based on quoted market prices or dealer quotes, where available.

Land, Buildings and Equipment

Land and buildings acquired prior to June 30, 1972 are recorded at appraised value as of that date or as of a prior appraisal date of June 30, 1965. Equipment and land and buildings acquired after June 30, 1972 are recorded at cost at the date of acquisition or fair value at date of donation in the case of gifts. Depreciation is computed on a straight-line basis over the estimated useful lives of the various assets as follows:

• Land Improvements	15-25 Years
• Buildings	25-75 Years
• Automotive Equipment	5-7 Years
• Equipment and Furniture	5-20 Years
• Library Resources	25 Years

Revenue and Expense Recognition

Student tuition and fees are recorded as revenues in the year during which the related academic services are rendered. Student tuition and fees received in advance of services are recorded as deferred revenues and are included as deposits and prepaid tuition on the statement of financial position. Revenues from federal grants and contracts are recorded as allowable expenditures under such agreements as incurred.

Contributions, including unconditional promises to give, are recognized as revenue in the period received and are reported as increases in the appropriate class of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions of long-lived assets are reported as unrestricted revenue. Contributions restricted for the acquisition of grounds, buildings and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets upon acquisition of the assets. Contributions to be received after one year are discounted at a 4% discount rate compounded annually. An allowance for uncollectible contributions is reserved at 25% of the net present value of pledges receivable. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments, investment income, and other revenues are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation.

Summary of Significant Accounting Policies, (Continued)

Functional Expenses

The costs of providing program services and support services of the College have been summarized on a functional basis in the statement of activities. Accordingly, certain operating costs have been allocated among the functional categories. Functional expenses are classified as educational and general and auxiliary enterprises. Educational and general expenses are normally categorized as instructional, public support, academic support, student services, institutional support and scholarships.

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. At that time, the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted, has been fulfilled, or both.

The College follows the policy of reporting, as unrestricted support, donor imposed restricted contributions whose restrictions are met in the same period as received. It is the College's policy to lift the restrictions on contributions of cash or other assets received for the acquisition of long-lived assets when the long-lived assets are placed in service.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Income Taxes

The College is exempt for federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code. However, the College is subject to income taxes on any income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted the exemption. No income tax provision has been recorded as the net income, if any from any unrelated trade or business, in the opinion of management, is not material to the basis financial statements taken as a whole.

The preparation of financial statements in conformity with GAAP prescribes for all entities, including pass-through entities, minimum thresholds for financial statement recognition of a position taken in filing tax returns (including whether the entity is taxable in a particular jurisdiction) and requires expanded tax disclosures. No such uncertain tax positions exist for the College at June 30, 2014 and June 30, 2013. The College has filed income tax returns in the U. S. Federal and the State of Georgia jurisdictions, and is no longer subject to federal and state income tax examinations for tax years before June 30, 2010 and June 30, 2009 respectively.

2. Temporarily and Permanently Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes:

	6/30/14	6/30/13
Academic Support	$ 59,710	$ 66,387
Student Aid	83,648	227,072
Buildings and Equipment	372,208	361,966
Operation of Physical Plant	15,001	71,898
Other	75,066	42,766
Total Temporarily Restricted Net Assets	$ 605,633	$ 770,089

Permanently restricted net assets are restricted to:
Investment in perpetuity, the income from which is expendable to support:

	6/30/14	6/30/13
Academic Support	$ 109,204	$ 107,993
Operation and Maintenance of Plant	225,000	225,000
Student Aid	3,305,359	3,245,247
Other	82,696	81,746
Total Permanently Restricted Net Assets	$3,722,259	$3,659,986

3. Net Assets Released from Donor Restrictions:

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events by specified donors.

	6/30/14	6/30/13
Purpose restrictions accomplished:		
Student Aid	$ 360,782	$ 251,889
Academic Support	42,369	2,016
Operation of Physical Plant	241,167	6,390
Buildings and Equipment	76,972	827,542
Other	42,554	36,259
Total	$ 763,844	$1,124,096

4. Promises to Give:

The College had unconditional promises to give at June 30, 2014 of $176,631 and at June 30, 2013 of $553,851. Pledges with an expected term of more than one year are discounted to their present value assuming their respective terms at a discount rate of 4% compounded annually. The College has established a reserve for uncollected pledges at 25% of the net present value of pledges receivable. After discounting pledges and establishing the reserve for uncollectible pledges, the College had net pledges of $124,514 (all temporarily restricted) at June 30, 2014 and $393,234 (all temporarily restricted) at June 30, 2013. $64,979 and $248,234 of the total pledges were due in less than one year and $59,535 and $145,000 was due in one to five years at June 30, 2014 and June 30, 2013 respectively.

5. Investments:

Investments other than physical plant are recorded at market and are composed of the following:

	June 30, 2014		June 30, 2013	
	Cost	Market Value	Cost	Market Value
Cash & Money Mkt.	$ 14,642	$ 14,642	$ 52,791	$ 52,791
Marketable Securities	232,537	251,909	861,961	850,688
Real Estate	1,236,890	1,236,890	1,263,563	1,263,563
Other	57,587	57,587	65,810	65,810
	$1,541,656	$1,561,028	$2,244,125	$2,232,852

To facilitate the management of the College's investment portfolio, certain investments, which represent restricted assets, are pooled with the College's unrestricted assets. Investment income and expenses and realized and unrealized gains and losses are allocated to the individual funds participating in the pool based on the relationship of the market value of each fund to the total value of the participating funds.

Real estate includes land, buildings and contents and is recorded at historical cost. Depreciation expense on the buildings and contents for the years ended June 30, 2014 and June 30, 2013 was $26,673 and $26,907, respectively.

6. Endowment Funds:

Historically Emmanuel College has maintained an Endowment Fund to hold funds contributed by donors on a permanently restricted basis. Until the fiscal year ended June 30, 2013 the endowment funds were invested with a third-party broker to generate investment income. The investment income was recorded as temporarily restricted income to be distributed according to the College's Endowment Policies. The majority of the endowments are for scholarships.

The Board of Trustees of the College has interpreted the UPMIFA as permitting the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Contributions to endowments are classified as permanently restricted if the donor requires that the contributed funds be held in perpetuity and that all distributions must come from earnings and or capital appreciation. Earnings and capital appreciation are considered temporarily restricted until the purpose for which they are designated has been achieved. Amounts distributed under these guidelines are considered unrestricted. All endowment funds are donor-designated endowments.

During the fiscal year ended June 30, 2013, the Board authorized the withdrawal of $2,500,000 from the Endowment Fund brokerage account to fund a loan to the General Fund. During the FYE June 30, 2014, an additional $1,000,000 was withdrawn from the Endowment Fund brokerage account and the loan amount was increased to $3,500,000. The loans were to bear interest at 6% per year and were therefore treated as Endowment Fund investments in the operations of the College. The receivable on the Endowment Fund's books was offset for purposes of presentation against the payable on the General Fund's books. During fiscal year ended June 30, 2013, $1,000 was repaid by the General Fund. During fiscal year ended

Endowment Funds, (Continued)

June 30, 2014, $202,852 was repaid by the General Fund, but as the College's cash shortage worsened, additional amounts were set aside and borrowed bringing the June 30, 2014 total interfund loan balance to $3,722,259, not including accrued interest. This loan amount was equal to the total permanently restricted balance of the Endowment Fund.

At the time the interfund loans were made, the General Fund was expected to have the ability to pay the interest quarterly and to repay the loans over a period not to exceed five years. Accrued interest of $112,934 was recorded in the fiscal year ended June 30, 2013 on the loans, but not paid. By the end of the fiscal year ended 2014, it became clear that the General Fund did not have the ability to fund the interest on the loans or to repay the principal. Accordingly, the College reversed the $112,934 of accrued interest for the fiscal year ended June 30, 2013 and recorded no accrued interest for the fiscal year ended June 30, 2014. In addition, the interfund loan was considered uncollectible by the Endowment Fund and was fully reserved. Because by June 30, 2014, the interfund loan was the only asset of the Endowment Fund, the Permanently Restricted Net Asset Balance of $3,722,259, represented by the interfund loan, was offset by a $3,722,259 Unrestricted Net Deficit, represented by the Allowance for Uncollectible Interfund Receivables, resulting in a total Endowment Fund balance of zero.

In light of the financial condition of the College as referenced in Note 21 Going Concern, the Board of Trustees has directed that these Endowment Fund balances be frozen and that the Endowment Policies regarding these funds be suspended until such time as the General Fund is able to begin funding the interest on these loans and repaying the principal. The Board has further directed that any permanently restricted funds received after June 30, 2014 be accounted for separately and that these funds not be available for use by the General Fund.

Reconciliation of Endowment Fund Beginning and Ending Balances by Net Asset Classification

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, July 1, 2013	$ (299,784)	$ 203,372	$ 3,659,986	$ 3,563,574
Dividend Income		13,024		13,024
Investment Fees		(3,165)		(3,165)
Contributions Gifts & Grants			57,073	57,073
Transfer to Endowment Fund per Donor			5,200	5,200
Unrealized Gain/(Loss) on Investments	299,784	(97,445)		202,339
Scholarships Awarded		(2,852)		(2,852)
Reversal of Prior Years Accrued Interfund Interest		(112,934)		(112,934)
Fully Reserve Receivable from General Fund		(3,722,259)		(3,722,259)
Reclass Asset Deficit - Permanently Restricted Balances	(3,722,259)	3,722,259		-
Net Activity	$ (3,422,475)	$ (203,372)	$ 62,273	$(3,563,574)
Net Assets, June 30, 2014	$ (3,722,259)	$ -	$ 3,722,259	$ -

7. Land, Buildings and Equipment:

Land and buildings acquired prior to June 30, 1972 were recorded at appraised value at June 30, 1972. Land and buildings acquired subsequent to June 30, 1972 are recorded at cost. At June 30, 2014 and June 30, 2013, the components for the College's property and equipment were as follows:

	6/30/14	6/30/13
Land and Land Improvements	$ 2,916,161	$ 2,305,089
Buildings and Leaseholds	28,297,564	24,063,261
Furniture, Fixtures and Equipment	3,748,098	3,688,189
Automotive Equipment	39,167	39,167
Library Resources	1,373,760	1,358,542
Construction in Progress	35,396	2,628,870
	$ 36,410,146	$ 34,083,118
Less: Accumulated Depreciation	(8,902,461)	(7,962,335)
	$ 27,507,685	$ 26,120,783

Gain or loss on disposition of land, buildings and equipment is reflected in earnings and the related costs and accumulated depreciation are removed from the respective accounts.

Depreciation expense for the fiscal years ended June 30, 2014 and June 30, 2013 amounted to $1,071,419 and $913,260, respectively.

8. Leases:

The College leases office space, security officers, vehicles, and equipment under operating leases that will expire at various dates in the future. The total paid on these leases in fiscal years ended June 30, 2014 and June 30, 2013 was $774,832 and $605,227 respectively.

Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year as of June 30, 2014 are as follows:

	Amount
FYE 6/30/15	$406,015
FYE 6/30/16	295,414
FYE 6/30/17	133,807
FYE 6/30/18	91,231
FYE 6/30/19	25,740
Thereafter	1,895
	$954,102

9. Bonds Payable:

During fiscal year ended June 30, 2013 the Franklin County Industrial Building Authority issued revenue bonds in the principal amount of $22,460,000 Series 2012A and $2,760,000 Series 2012B and loaned the proceeds to Emmanuel College. The proceeds were used to pay off the Franklin County Industrial Building Authority Series 2010A and Series 2010B bonds in the amounts of $3,286,726 and $7,175,822, respectively, to pay-off an outstanding line of credit and other loans, to finance capital projects, pay bond issuance cost, and establish a debt service reserve fund.

The 2012A bonds are as follows: $2,560,000 due 11/1/2025 at 5.75%, $5,350,000 due 11/1/2032 at 6.00%, and $14,550,000 due 11/1/2043 at 6.25%. The 2012B bonds of $2,760,000 are due at 11/1/2021 at 7.00%.

The principal amounts of bond redemptions on the Franklin County Industrial Building Authority 2012A and 2012B bonds are as follows:

	Series 2012 A	Series 2012 B
FYE 6/30/15	$ ----	$ 300,000
FYE 6/30/16	----	320,000
FYE 6/30/17	----	345,000
FYE 6/30/18	----	370,000
FYE 6/30/19	----	395,000
FYE 6/30/20-6/30/24	1,385,000	1,030,000
FYE 6/30/25-6/30/29	3,200,000	----
FYE 6/30/30-6/30/34	4,285,000	----
FYE 6/30/35-6/30/39	5,775,000	----
FYE 6/30/40-6/30/44	7,815,000	----
TOTALS	$ 22,460,000	$ 2,760,000

<u>Since year-end, significant events have occurred related to the outstanding bonds payable. See Note 20 for a description of these subsequent events.</u>

10. Notes Payable:

Long-Term Notes Payable consisted of the following at June 30, 2014 and June 30, 2013:

	6/30/14	6/30/13
Pinnacle Bank, DDA Series 2001A, payable in monthly installments of $10,000 including interest at 2/3 of the prior year average prime rate per annum, (2.1670% at 6/30/14 and 6/30/13) adjusted annually on September 1, secured by real estate	$ 295,627	$398,522

Notes Payable (Continued)

	6/30/14	6/30/13
IPHC Ext Loan Fund, payable in one installment due 04/15/16 with interest at 5.31%, secured by IPHC investment account	500,863	-----
IPHC Ext Loan Fund, payable in 18 monthly installments beginning 09/29/14 at 5.5% interest, secured by 3rd party investments	310,000	-----
IPHC Ext Loan Fund, payable in 10 semi-annual installments beginning 04/29/16 at 5.5%, secured by real estate parcels	480,900	-----
Chartwells Division, payable $4,167 per month, non-interest bearing, non-secured	500,000	-----
	$2,087,390	$398,522

Long-Term Notes mature as follows:

6/30/2015	$ 331,226
6/30/2016	854,012
6/30/2017	202,069
6/30/2018	143,341
6/30/2019	148,545
Thereafter	408,197
	$2,087,390

The College has a repurchase agreement with the Franklin County Industrial Development Authority in the amount of $250,000 due August 13, 2015. There is no interest on this agreement.

The College also has a line of credit with a local bank in the amount of $ 1,158,322 at both 6/30/14 and 6/30/13 with an annual interest rate of 5.5%.

Interest expense for the years ended June 30, 2014 and June 30, 2013 totaled $1,699,251 and $860,795, respectively. The College also capitalized interest in the amounts of $90,482 in FYE 6/30/14 and $281,670 in FYE 6/30/13.

10. Inter-Fund Receivables and Payables:

The College uses fund accounting for its internal record keeping purposes. Fund accounting is a system of recording resources whose use may be limited by donors, granting agencies, governing boards, or other individuals or entities by law. The College maintains accounts in a General Fund, Operating Reserve Fund, Investment Fund, Property, Plant and Equipment Fund, Restricted Contribution Fund, and an Endowment Fund. There were no inter-fund receivables and payables at June 30, 2014 and June 30, 2013 other than the fully reserved note between the general fund and the endowment fund mentioned in Note 6.

11. Employee Pension Plan:

The College sponsors a 403(b) retirement plan for faculty, salaried staff and hourly staff who work at least 1,000 hours a year. Employees are eligible for the plan after they have completed one full year of service. The College contributes 6% of participating employees' annual salaries. The College contributed to the plan $215,066 in fiscal year ended June 30, 2014 and $277,289 in fiscal year ended June 30, 2013. As of April 1, 2014 employer contributions to the 403(b) retirement plan have been suspended.

12. Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

Carrying amounts for cash and cash equivalents approximate fair values.

Pledges Receivable

Carrying amounts for unconditional pledges are based on the present value of the promises, which approximates the fair value as explained in Note 4 above.

Investments

The fair values of marketable securities are based on quoted market prices at year-end. The carrying amounts of other investments approximate fair value (see Note 5).

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the assets or the liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure the fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the College has the ability to access.
- Level 2 inputs are inputs (other than quoted prices within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include management's own data.)

Fair Value of Financial Instruments, (Continued)

Investments

The following table present the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014:

		Fair Value at Reporting Date Using		
	06/30/2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Trading Securities				
Equity Funds	$ 88,576	$ 88,576	$ -	$ -
Bond Funds	76,761	76,761		
Other Securities	86,572	86.572		
Cash/Money Market Funds	14,642	14,642		
Total	$ 266,551	$ 266,551	$ -	$ -
Other				
Real Estate	$ 1,236,890	$ -	$ -	$ 1,236,890
Cash Value – Life Insurance Policies	57,587			57,587
Total	$ 1,294,477	$ -	$ -	$ 1,294,477
Grand Total	$ 1,561,028	$ 266,551	$ -	$ 1,294,477

Fair Value Measurements at June 30, 2014
Using Inputs at Quoted Prices (Level 1)

	Cash and Money Market	Marketable Securities	Other	Total
Beginning Balance 6/30/13	$ ---	$ 903,479	$ ---	$ 903,479
Realized and Unrealized Gains & Losses	---	81,311	---	81,311
Purchases	---	271,901	---	271,901
Dividends and Interest	---	13,027	---	13,027
Sales	---	(1,000,002)	---	(1,000,002)
Investment Fees	---	(3,165)	---	(3,165)
Ending Balance 6/30/14	$ ---	$ 266,551	$ ---	$ 266,551

Fair Value of Financial Instruments, (Continued)

Fair Value Measurements at June 30, 2014
Using Significant Unobservable Inputs (Level 3)

	Real Estate	Other	Total
Beginning Balance 6/30/13	$ 1,263,563	$ 65,810	$ 1,329,373
Purchase of Real Estate	---	---	---
Sales – Collectibles	---	(10,000)	(10,000)
Depreciation on Real Estate	(26,673)	---	(26,673)
Increase in Cash Value	---	1,777	1,777
Unrealized Gain (Loss)	---	---	---
Ending Balance 6/30/14	$ 1,236,890	$ 57,587	$ 1,294,477

Long-Term Debt

The carrying amount of the College's long-term debt approximates fair value (see Note 9).

13. Concentration of Credit Risk:

Financial instruments which subject the College to concentrations of credit risk consist primarily of investments in bond funds; equity holdings of domestic corporations; and mutual funds which invest primarily in short-term securities. The College typically maintains cash and cash equivalents and temporary investments in local banks, which may at times, exceed the FDIC limits. At June 30, 2014 and June 30, 2013, cash at these institutions exceeded federally insured limits by $1,768,762 and $3,725,087, respectively.

The College's operations are located in Franklin Springs, Georgia and its students come primarily from Georgia and surrounding states. The College's major source of revenue is derived from tuition and room and board.

The College receives funds, which are applied against students' accounts, from federal and state governmental organizations that provide assistance to students attending institutions of higher education.

14. Compensated Absences:

Employees of the College are entitled to paid vacations and paid sick days, depending on job classification, length of service, and other factors. Employees and management have contracts or agreements with the College that provide for compensated absences. A total of $57,202 and $50,622 is included in accrued liabilities for compensated absences at June 30, 2014 and June 30, 2013.

15. Deferred Revenue:

The College has deferred revenue resulting from a food service agreement with Compass Group, USA - Chartwells Division. The agreement is for the period June 1, 2011 through May 31, 2021. As part of the agreement, Chartwells has agreed to make investments in the College's dining service program to fund capital investments in total sum of $1,115,000. This investment is shown as deferred revenue and will be recognized as income according to a table that shows the investment in various items of equipment and the amortizable figure for each item. The amount amortized in FYE 6/30/14 and FYE 6/30/13 was $134,091 and $113,899 and is included in income. The balance of $846,285 and $980,376 is shown in deferred revenue at June 30, 2014 and June 30, 2013.

The College has deferred revenue resulting from a maintenance and facility support agreement with SSC Service Solutions. The agreement is for the period November 14, 2011 through November 13, 2026. As part of the agreement, SSC Service Solutions has agreed to make a $1,500,000 investment in the College. This amount is to be amortized over the 15 year life of the agreement. The amount amortized for FYE 6/30/14 and FYE 6/30/13 was $100,000 and $100,000 and is included in income. The balance of $1,233,333 and $1,333,333 is shown in deferred revenue at June 30, 2014 and June 30, 2013.

16. Fund-Raising:

Total fund-raising expenses in the amount of $124,190 and $155,708 for fiscal years ended June 30, 2014 and June 30, 2013 respectively are included in Institutional Support in the Statement of Activities. The fund-raising expenses of the College include allocated salaries and related expenses in the amount of $98,974 and $103,562 for fiscal years ended June 30, 2014 and June 30, 2013.

17. Current Economic Conditions:

The current economic environment presents entities with unprecedented circumstances and challenges, which in some cases have resulted in large declines in fair values of investments and other assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the College.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statement could change rapidly, resulting in material future adjustments in asset values or net assets that could negatively impact the College's ability to maintain liquidity at desired levels.

18. Derivative Financial Instruments:

At June 30, 2012, the College was obligated two interest rate swap arrangements that were set to mature on September 30, 2017 and December 30, 2017. The swaps were paid off in fiscal year June 30, 2013. The cash flow effects of the swap agreements are reported as adjustments to interest expense. The net cash flow for the year ended June 30, 2013 was an increase of interest expense of $91,133.

19. Commitment and Contingencies:

(a) Legal

As of June 30, 2014, the College was not a party to any lawsuits. However, the subsequent events disclosed in Note 20 below have the potential of generating significant legal action resulting in liabilities to the College. The amount and likelihood of such liabilities are undetermined.

(b) Federal Funding

Certain federal grants that the College administers and for which it receives reimbursements are subject to audit and final acceptance by federal granting agencies. The amount of the expenditures that may be disallowed by the grantor, if any, cannot be determined at this time.

20. Subsequent Events:

In July of 2014, during audit field work for the fiscal year ended June 30, 2014, questions arose regarding the basis of Roberson Residence Hall Phase #2 which was much greater than the basis of Phase #1. The larger-than-expected basis resulted from in-kind contributions of $2,500,000 and $664,000 posted to the basis of Roberson Hall Phase #2 in fiscal year 2014.

The auditors noted that the contribution detail for the year ended June 30, 2013 included an unrestricted pledge of $2,500,000 that was to be received in either cash or real estate not related to the building campaigns on campus. The fact that this pledge was shown as satisfied in fiscal year 2014 through an in-kind contribution to Roberson Hall Phase #2 along with an additional in-kind contribution of $664,000 caused the auditors to question these additions and seek further clarification from the College.

The College reviewed the entries in question and, as a result, launched an internal investigation. Because the internal investigation yielded evidence of possible irregularities in the recording of pledges and in-kind contributions, the College retained the services of a forensic accountant who performed various procedures including

Subsequent Events (Continued)

interviews with donors regarding pledges and searches of documents on computers located at the College. The forensic accountant concluded that certain documents in fiscal 2012, fiscal 2013, and fiscal 2014 were fabricated and did not represent valid gifts to the College and could not be relied upon for financial statement presentation. For the fiscal year ended June 30, 2012, a builders' discount / gift-in-kind of $276,000 on Roberson Hall Phase #1 and a fabricated appraisal of the Athletic Center which showed a gift-in-kind of $2,985,000 were found to be misrepresentations not supported by donor intent or donor action. The inclusion of these fabricated gifts-in-kind in fiscal 2012 financial statements resulted in overstated assets and revenues.

After discussions with donors and analysis of supporting documentation, the forensic accountant determined that three pledges for the fiscal year ended June 30, 2013 also did not represent valid gifts to the College and could not be relied upon for financial statement presentation. These reported items included the $2,500,000 pledge mentioned above, an unrestricted pledge of $1,034,951 and another pledge of $300,000 which was restricted for campus projects. The documents relied upon to record these pledges were fabricated and the purported pledges were not supported by donor intent or donor action. The inclusion of these pledges in the fiscal 2013 financial statements resulted in overstated assets and revenues.

According to the report of the forensic accountant, the misrepresentations and fabricated documents were linked to a single individual formerly employed by the College. The misrepresentations were reflected in financial statements presented to the College's president, administration, the board of trustees and the external auditors.

The College has issued restated financial statements for fiscal years ended June 30, 2012 and June 30, 2013.

Since June 30, 2014, the College has defaulted on long-term debt obligations as follows:

2012 Series A & B Bonds	$ 1,085,388
Pinnacle Bank - DDA Series 2001	60,000
IPHC Extension Loan Fund	122,913
Total Bonds & Notes	$ 1,268,301
Pinnacle Bank - Line of Credit	1,200,784
Total Past Due Debt Service	$ 2,469,085

Subsequent events were evaluated through March 23, 2015, which is the date that the financials were available to be issued. Management does not believe that there were any other subsequent events that need to be disclosed in the financial statements.

21. Going Concern

Under Generally Accepted Accounting Principles financial statements are generally prepared with the assumption that the entity being reported on is a going concern. However, because of the College's financial condition, its lack of sufficient cash flow, its failure to pay scheduled debt service, and the other issues disclosed in the preceding notes to these financial statements, the assumption that the College is a going concern cannot be supported.

The College administration has prepared a five year recovery plan to address the financial crisis. This recovery plan will be presented to the College's secured and unsecured creditors. At the time of the issuance of the financial statements, the College administration cannot determine the probability that the implementation of the recovery plan will result in the restoration of the going concern assumption.

EMMANUEL COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2014

Federal Grantor/ Program Title	Federal CFDA Number	Program or Award Amount	Receipts or Revenue Recognized	Federal Disbursement/ Expenditures
U.S. Department of Education				
Federal Supplemental Educational Opportunity Grants	84.007	$ 35,398	$ 35,398	$ 35,398
Federal Direct Student Loans	84.268	4,889,648	4,889,648	4,889,648
Federal Work-Study Program	84.033	97,306	97,306	97,306
Federal Pell Grant Program	84.063	1,674,044	1,674,044	1,674,044
Total (SFA Cluster)		$ 6,696,396	$ 6,696,396	$ 6,696,396

Emmanuel College
Notes to Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2014

1. Summary of Significant Accounting Policies:

   Accrual Basis

   The schedule of expenditures of federal awards of Emmanuel College has been prepared on the accrual basis of accounting.

2. Federal Direct Student Loans

   Emmanuel College administers federal direct student loan programs including Stafford, Unsubsidized Stafford and PLUS Loans. During the year, students received $1,763,489 Stafford, $2,104,824 Unsubsidized Stafford and $1,021,335 PLUS Loans. These loans are federally guaranteed.

ED K. BURTON, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Ed K. Burton, CPA
Alan M. Burton, CPA
T. Scott Slaton, CPA

Members American Institute of CPA's and Georgia Society of CPA's

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*

The Board of Trustees
Emmanuel College
Franklin Springs, Georgia

We have audited, 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, the financial statements of Emmanuel College (a nonprofit organization) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Emmanuel College's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Emmanuel College's internal control. Accordingly, we do not express an opinion on the effectiveness of Emmanuel College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

695 Big A Road ◊ P.O. Box 934 ◊ Toccoa, Georgia 30577 ◊ Telephone (706) 886-0461 ◊ Fax (706) 886-0201 ◊ E-mail: eburton@windstream.net

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emmanuel College'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, after restatement of the financial statements, disclosed instances of noncompliance or other matters that required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and question costs as items 2014-002 and 2014-003.

Emmanuel's Response to Findings

Emmanuel's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Emmanuel's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of the 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ed K. Burton, LLC

March 23, 2015

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Ed K. Burton, CPA
Alan M. Burton, CPA
T. Scott Slaton, CPA

Members American Institute of CPA's and Georgia Society of CPA's

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Trustees
Emmanuel College
Franklin Springs, Georgia

Report on Compliance for Each Major Program

We have audited Emmanuel College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Emmanuel College's major federal programs for the year ended June 30, 2014. Emmanuel College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Emmanuel College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Emmanuel College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Emmanuel College's compliance.

695 Big A Road ◊ P.O. Box 934 ◊ Toccoa, Georgia 30577 ◊ Telephone (706) 886-0461 ◊ Fax (706) 886-0201 ◊ E-mail: eburton@windstream.net

Opinion on Each Major Federal Program

In our opinion, Emmanuel College complied, in all material respects, with the types of compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Emmanuel College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Emmanuel College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Emmanuel College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ed K. Burton, LLC

March 23, 2015

EMMANUEL COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

A. Summary of Audit Results

1. As discussed in the notes to the financial statements, an unmodified opinion was issued on the financial statements of Emmanuel College.
2. The audit disclosed a reportable condition in internal control discussed below in Section B, which is material to the financial statements of Emmanuel College.
3. The audit disclosed a noncompliance issue discussed below in Section B, which is material to the financial statements of Emmanuel College.
4. The audit did not disclose any reportable condition in internal control over student financial assistance programs (major program).
5. An unmodified opinion was issued on compliance for student financial assistance programs.
6. The audit did not disclose any audit findings in which the auditor is required to report under OMB Circular A-133, Section 501(a).
7. Emmanuel College's only major program is student financial assistance programs. This cluster of programs consists of Federal Supplemental Educational Opportunity Grant Program (CFDA No. 84.007), Federal Direct Student Loan Program (CFDA No. 84.268), Federal Work Study (CFDA No. 84.033), Federal Pell Grant Program (CFDA No. 84.063).
8. Emmanuel College does not qualify as a low-risk auditee under OMB Circular A-133, Section 530 due to the finding related to the material weakness regarding internal control over financial reporting.

B. Findings Relating to the Financial Statements

Internal Control over Financial Reporting

2014-001 Current Year Finding:

Criteria: The College is required to have controls in place to prevent or detect material misstatement of financial statements.

Condition: During the audit field work, it was discovered that certain pledges that materially affected the College's financial statements had been misstated. A subsequent investigation revealed that these misstatements occurred when a former upper management employee of the College overrode controls and fabricated documents purporting to support these pledges, and had provided these fabricated documents to the College's auditors for inclusion in its financial statements.

Effect: The override of controls related to the recording of pledges receivable resulted in misstated financial statements for the fiscal years ended June 30, 2012 and June 30, 2013. These misstated financial statements were provided to the College's president, administration, board of trustees, and the external auditors, as well as to external third parties. The misstatements prevented the financial statements from accurately depicting the financial condition of the College.

Cause: Management override of controls.

Recommendations: The College needs to establish more controls over the recording, valuation, and presentation of pledges receivable. The Board of Trustees needs to establish an audit committee to provide more oversight of the financial statement process.

Response: The College has developed and implemented more stringent controls over the recording, valuation, and presentation of pledges receivable. The president and the vice-president of development are required to review and reconcile the detail of all pledge amounts included in the annual financial statements. In addition, all pledges of $50,000 or more must be approved by the president and vice-president of development before being entered as a receivable. In addition, the Board of Trustees has appointed an audit committee and charged them with oversight of the financial statement process and with developing policies and procedures to prevent management override of controls.

Compliance and Other Matters

2014-002 Current Year Finding:

Criteria: The College is required to meet certain bond covenants per the agreement with the bondholders.

Condition: Based on the financial statements for the fiscal year ended June 30, 2014, the College is in violation of certain bond covenants.

Effect: The College is required to disclose the bond covenant violations to the bondholders and other parties.

Cause: The College failed to meet its net revenue and enrollment projections resulting in covenant violations.

Recommendations: The College needs to increase student net revenue and unrestricted donations and otherwise change its financial structure to support the debt service and the related covenant requirements.

Response: The College is developing a recovery plan which includes initiatives to increase net revenue from students and contributions from donors. The plan also addresses cost controls and other changes in the financial structure designed to create financial stability and provide for full debt service and comply with the related covenants.

2014-003 Current Year Finding:

Criteria: The College is required to make timely payments on all long-term debt obligations including bonds and notes payable.

Condition: The College has not made timely payments on its long-term debt obligations including bonds and notes payable.

Effect: The College is in default in its long-term bonds and notes payable. Accordingly the creditors could choose to exercise the remedies provided in the related bond and notes payable documents.

Cause: The College has not met the net revenue and enrollment projections presented when approving and incurring its long-term debt. As a result, the College does not have sufficient cash flow to service its debt and fund operations.

Recommendations: The College needs to increase student net revenue and unrestricted donations and otherwise change its financial structure to support its debt service requirements.

Response: The College is developing a recovery plan which includes initiatives to increase net revenue from students and contributions from donors. The plan also addresses cost controls and other changes in the financial structure designed to create financial stability and provide for full debt service.

C. Findings and Questioned Costs for Federal Awards

None

EMMANUEL COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The SFA Programs were audited for the year ended June 30, 2013 and a report of an independent certified public accountant was issued thereon dated September 30, 2013. There were prior audit findings.

2013-001 Prior Year Finding:

Criteria: The College is required to meet certain bond covenants per the agreement with the bondholders.

Condition: After the financial statements were restated, it was determined that the College was not in compliance with bond covenant agreements.

Auditee Response/Status: Unresolved. Refer to current year finding at 2014-002.