

**CHARTER HIGH SCHOOL FOR
ARCHITECTURE AND DESIGN**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
YEAR ENDED JUNE 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Charter High School for Architecture and Design
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Charter High School for Architecture and Design (a nonprofit organization) (the "School") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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. The financial statements of Designing Futures Foundation and Affiliates were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the School'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 School'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 business-type activity, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the School as of and for the year ended June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof, for the year then ended in conformity 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 and budgetary comparison information on pages 4 - 7 and 31, respectively, 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 School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic financial statements. The 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 schedule of expenditures of federal awards 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 November 22, 2013, on our consideration of the School's internal control over financial reporting and 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 the School's internal control over financial reporting and compliance.

Citrin Cooperman & Company LLP
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
November 22, 2013

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

The Board of Trustees of Charter High School of Architecture and Design (the "School") offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented herein in conjunction with the School's financial statements.

Financial Highlights

- Total governmental revenues for the fiscal year ended June 30, 2013, were \$7,302,399, representing a decrease of \$145,637 from June 30, 2012.
- At June 30, 2013, the School reported an ending governmental fund balance of \$1,513,994, representing an increase of \$48,680 from June 30, 2012.
- The School's cash balance at June 30, 2013, was \$1,199,247, representing an increase of \$679,154 from June 30, 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements as presented comprise four components: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) the notes to the financial statements, and (4) the federal awards section.

Government-Wide Financial Statements

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

The statement of net position presents information on all of the School's assets and liabilities, with the difference between the two 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 School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal 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. expenditures accrued in one fiscal year but paid in subsequent years, and depreciation).

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School. The School's function is to provide an alternative educational opportunity.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental-type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has three fund types: the governmental general fund, the proprietary fund, and the fiduciary agency fund.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (Continued)

Notes to the Financial Statements

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

Supplementary Information

The governmental fund budgetary comparison schedule is presented for purposes of additional analysis and is prepared using a basis other than accounting principles generally accepted in the United States of America ("GAAP") for state reporting requirements.

Single Audit Requirements

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*.

Government-Wide Financial Analysis

Management has adopted Governmental Accounting Standards Board ("GASB") Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which requires a comparative analysis of current- and prior-year balances.

| | <u>June 30,</u> | |
|----------------------------------|---------------------|---------------------|
| | <u>2013</u> | <u>2012</u> |
| Current and other assets | \$ 2,291,768 | \$ 2,142,123 |
| Capital assets | <u>253,607</u> | <u>274,431</u> |
| Total assets | <u>2,545,375</u> | <u>2,416,554</u> |
| Total liabilities | <u>965,281</u> | <u>871,817</u> |
| Net position: | | |
| Net investment in capital assets | 253,607 | 274,431 |
| Unrestricted | <u>1,326,487</u> | <u>1,270,306</u> |
| Total net position | \$ <u>1,580,094</u> | \$ <u>1,544,737</u> |

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$1,580,094 as of June 30, 2013.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

Overview of the Financial Statements (Continued)

Government-Wide Financial Analysis (Continued)

The School's revenues are predominately received from the School District of Philadelphia based on student enrollment. For the year ended June 30, 2013, the School's revenues (\$7,491,504) exceeded its expenses (\$7,456,147) by \$35,357.

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Revenues: | | |
| Local educational agencies | \$ 6,065,241 | \$ 6,189,999 |
| Other sources | 294,924 | 222,346 |
| Food services | 189,107 | 188,460 |
| State sources | 512,157 | 304,074 |
| Federal sources | <u>430,075</u> | <u>731,618</u> |
| Total revenues | <u>7,491,504</u> | <u>7,636,497</u> |
| Expenditures: | | |
| Other instructional programs | 3,256,136 | 3,155,036 |
| Pupil personnel services | 449,183 | 394,237 |
| Instructional staff services | 134,450 | 138,269 |
| Administrative services | 1,160,553 | 1,219,960 |
| Pupil health | 90,763 | 85,672 |
| Business services | 139,757 | 156,638 |
| Operation and maintenance of plant services | 1,627,672 | 1,697,789 |
| Other support services | 328,358 | 378,920 |
| Food services | 181,867 | 216,406 |
| Student activities | 27,048 | 31,876 |
| Depreciation expense | <u>60,360</u> | <u>45,284</u> |
| Total expenditures | <u>7,456,147</u> | <u>7,520,087</u> |
| Change in net position | 35,357 | 116,410 |
| Net position - beginning | <u>1,544,737</u> | <u>1,428,327</u> |
| NET POSITION - ENDING | <u>\$ 1,580,094</u> | <u>\$ 1,544,737</u> |

Governmental Fund

The focus of the School's governmental fund (the general fund) is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

The general fund is the chief operating fund of the School. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$1,513,994.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013**

General Fund Budgetary Highlights

Over the course of the year, the School revised the annual operating budget several times. These budget amendments consisted of changes made within budgetary line items for changes in the school-based needs for programs, supplies and equipment. There were no formal budget amendments made that were required to be submitted to the state of Pennsylvania.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2013, the School's investment in capital assets for its governmental activities and business-type activity totaled \$253,607 (net of accumulated depreciation). This investment in capital assets includes furniture for the School along with leasehold improvements.

Long-Term Debt

As of June 30, 2013, the School has no outstanding long-term debt.

Economic Factors and Next Year's Budgets and Rates

The School does not foresee any substantial variations with next year's economic factors, budgets or rates.

Future Events That Will Financially Impact the School

The School does not foresee any future events at this time that will financially impact the School.

Contacting the School's Financial Management

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report or requests for additional information should be addressed to: Chief Executive Officer, Charter High School for Architecture and Design, 105 S. 7th Street, Philadelphia, PA 19106.

Component Unit

Designing Futures Foundation and Affiliates (the "Organization") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that the Organization is legally separate from the School. The complete financial statements of the Organization can be obtained at 105 S. 7th Street, Philadelphia, PA 19106.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION
JUNE 30, 2013

| | Governmental Activities | Business-type Activity | Total | Component Unit |
|---|----------------------------|---------------------------|---------------------|---------------------|
| ASSETS | | | | |
| Cash | \$ 1,199,247 | \$ - | \$ 1,199,247 | \$ 528,439 |
| State subsidies receivable | 218,325 | 1,041 | 219,366 | - |
| Federal subsidies receivable | 25,382 | 21,243 | 46,625 | - |
| Other receivables | 117,460 | - | 117,460 | 27,228 |
| Prepaid expenses, current portion | 142,216 | 24,479 | 166,695 | 2,035 |
| Due from funds | 491,723 | - | 491,723 | - |
| Prepaid expenses, net of current portion | 22,223 | - | 22,223 | - |
| Security deposit | 28,429 | - | 28,429 | - |
| Intangible assets, net | - | - | - | 100,975 |
| Capital assets: | | | | |
| Nondepreciable capital assets | - | - | - | 1,642,530 |
| Building and improvements | - | - | - | 9,532,596 |
| Leasehold improvements | 873,747 | - | 873,747 | - |
| Furniture and equipment | 516,930 | 57,544 | 574,474 | 240,320 |
| Software | - | - | - | 20,284 |
| Less: accumulated depreciation | <u>(1,161,582)</u> | <u>(33,032)</u> | <u>(1,194,614)</u> | <u>(2,093,665)</u> |
| Total assets | <u>2,474,100</u> | <u>71,275</u> | <u>2,545,375</u> | <u>10,000,742</u> |
| LIABILITIES | | | | |
| Accounts payable and accrued expenses | 119,258 | 29,509 | 148,767 | 168,073 |
| Salaries and benefits payable | 535,477 | - | 535,477 | - |
| Due to related parties | - | - | - | 465,466 |
| Due to funds | 36,937 | 204,761 | 241,698 | - |
| Long-term obligations: | | | | |
| Deferred revenue: | | | | |
| Due within one year | 39,339 | - | 39,339 | 133,332 |
| Due beyond one year | - | - | - | 88,898 |
| Notes payable: | | | | |
| Due within one year | - | - | - | 560,540 |
| Due beyond one year | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,752,011</u> |
| Total liabilities | <u>731,011</u> | <u>234,270</u> | <u>965,281</u> | <u>8,168,320</u> |
| Commitments and contingencies (Notes 6, 8, 9, 10 and 11) | | | | |
| NET POSITION | | | | |
| Net investment in capital assets | 229,095 | 24,512 | 253,607 | - |
| Unrestricted | <u>1,513,994</u> | <u>(187,507)</u> | <u>1,326,487</u> | <u>1,832,422</u> |
| Total net position | <u>\$ 1,743,089</u> | <u>\$ (162,995)</u> | <u>\$ 1,580,094</u> | <u>\$ 1,832,422</u> |

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

| Functions | Expenses | Program | Net (Expense) Revenue and Changes in Net Assets | | | |
|--|---------------------|--|---|----------------------------|---------------------|---------------------|
| | | Revenues Operating Grants and Contributions | Governmental Activities | Business- type Activity | Total | Component Unit |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| Other instructional programs | \$ 3,256,136 | \$ 2,687,651 | \$ (568,485) | \$ - | \$ (568,485) | \$ - |
| Pupil personnel services | 449,183 | 42,855 | (406,328) | - | (406,328) | - |
| Instructional staff services | 134,450 | 6,765 | (127,685) | - | (127,685) | - |
| Administrative services | 1,160,553 | 75,729 | (1,084,824) | - | (1,084,824) | - |
| Pupil health | 90,763 | 7,148 | (83,615) | - | (83,615) | - |
| Business services | 139,757 | - | (139,757) | - | (139,757) | - |
| Operation and maintenance of plant services | 1,627,672 | 120,216 | (1,507,456) | - | (1,507,456) | - |
| Other support services | 328,358 | 6,874 | (321,484) | - | (321,484) | - |
| Food services | - | - | - | (181,867) | (181,867) | - |
| Student activities | 27,048 | 2,441 | (24,607) | - | (24,607) | - |
| Depreciation expense | <u>52,102</u> | <u>-</u> | <u>(52,102)</u> | <u>(8,258)</u> | <u>(60,360)</u> | <u>-</u> |
| Total governmental activities | <u>\$ 7,266,022</u> | <u>\$ 2,949,679</u> | <u>(4,316,343)</u> | <u>(190,125)</u> | <u>(4,506,468)</u> | <u>-</u> |
| Component unit: | | | | | | |
| Designing Futures Foundation and Affiliates | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,208,623)</u> |
| General revenues: | | | | | | |
| Local educational agencies | | | 4,178,788 | 37,760 | 4,216,548 | - |
| State grants and reimbursements | | | - | 8,691 | 8,691 | - |
| Food services | | | - | 142,656 | 142,656 | - |
| Rental income | | | - | - | - | 1,697,605 |
| Other revenue | | | <u>173,930</u> | <u>-</u> | <u>173,930</u> | <u>150,171</u> |
| Total general revenues | | | <u>4,352,718</u> | <u>189,107</u> | <u>4,541,825</u> | <u>1,847,776</u> |
| Change in net position | | | 36,375 | (1,018) | 35,357 | 639,153 |
| Net position - beginning | | | <u>1,706,714</u> | <u>(161,977)</u> | <u>1,544,737</u> | <u>1,193,269</u> |
| NET POSITION - ENDING | | | <u>\$ 1,743,089</u> | <u>\$ (162,995)</u> | <u>\$ 1,580,094</u> | <u>\$ 1,832,422</u> |

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2013

| | <u>General Fund</u> |
|--|----------------------------|
| <u>ASSETS</u> | |
| Cash | \$ 1,199,247 |
| State subsidies receivable | 218,325 |
| Federal subsidies receivable | 25,382 |
| Other receivables | 117,460 |
| Prepaid expenses | 164,439 |
| Due from funds | 491,723 |
| Security deposit | <u>28,429</u> |
| TOTAL ASSETS | <u>\$ 2,245,005</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | |
| Liabilities: | |
| Accounts payable and accrued expenses | \$ 119,258 |
| Salaries and benefits payable | 535,477 |
| Due to funds | 36,937 |
| Deferred revenues | <u>39,339</u> |
| Total liabilities | 731,011 |
| Fund balance: | |
| Unassigned | <u>1,513,994</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 2,245,005</u> |

See accompanying notes to financial statements.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND TO
THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total fund balance for governmental fund **\$ 1,513,994**

Amounts reported for governmental activities in the statement of net position
are different because:

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

| | | |
|--------------------------------|--------------------|----------------|
| Leasehold improvements | \$ 873,747 | |
| Furniture and equipment | 516,930 | |
| Less: accumulated depreciation | <u>(1,161,582)</u> | |
| | | <u>229,095</u> |

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 1,743,089**

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2013**

| | <u>General Fund</u> |
|------------------------------|----------------------------|
| Revenues: | |
| Local educational agencies | \$ 6,065,242 |
| Other sources | 294,925 |
| State sources | 512,157 |
| Federal sources | <u>430,075</u> |
| Total revenues | <u>7,302,399</u> |
| Expenditures: | |
| Instruction | 3,256,136 |
| Support services | 3,970,535 |
| Non-instructional services | <u>27,048</u> |
| Total expenditures | <u>7,253,719</u> |
| Net change in fund balance | 48,680 |
| Fund balance - beginning | <u>1,465,314</u> |
| FUND BALANCE - ENDING | <u>\$ 1,513,994</u> |

See accompanying notes to financial statements.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT
OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Net change in fund balance - total governmental fund \$ 48,680

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense, as follows:

| | | |
|----------------------|-----------------|-----------------|
| Capital outlay | 39,797 | |
| Depreciation expense | <u>(52,102)</u> | |
| | | <u>(12,305)</u> |

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 36,375**

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

| | <u>Food Service Fund</u> |
|---------------------------------------|------------------------------|
| ASSETS | |
| Current assets: | |
| Federal subsidies receivable | \$ 21,243 |
| State subsidies receivable | 1,041 |
| Prepaid expenses | <u>24,479</u> |
| Total current assets | <u>46,763</u> |
| Noncurrent assets: | |
| Capital assets: | |
| Equipment | 57,544 |
| Less: accumulated depreciation | <u>(33,032)</u> |
| Capital assets, net | <u>24,512</u> |
| Total assets | <u>71,275</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable and accrued expenses | 29,509 |
| Due to general fund | <u>204,761</u> |
| Total liabilities | <u>234,270</u> |
| NET POSITION | |
| Net investment in capital assets | 24,512 |
| Unrestricted | <u>(187,507)</u> |
| Total net position | <u><u>\$ (162,995)</u></u> |

See accompanying notes to financial statements.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF ACTIVITIES
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013**

| | <u>Food Service Fund</u> |
|------------------------------|-----------------------------------|
| REVENUES: | |
| Food service revenues | \$ <u>189,107</u> |
| EXPENSES: | |
| Salaries and benefits | 7,964 |
| Food and supplies | 167,717 |
| Professional fees | 6,186 |
| Depreciation | <u>8,258</u> |
| Total expenses | <u>190,125</u> |
| Change in net position | (1,018) |
| Net position - beginning | <u>(161,977)</u> |
| NET POSITION - ENDING | \$ <u><u>(162,995)</u></u> |

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

| | <u>Food Service Fund</u> |
|---|------------------------------|
| Cash flows from operating activities: | |
| Cash received from students | \$ 37,760 |
| Cash received from federal sources | 136,186 |
| Cash received from state sources | 8,095 |
| Payments to suppliers | (176,167) |
| Payments to employees | <u>(7,964)</u> |
| Net cash used in operating activities | (2,090) |
| Cash provided by noncapital financing activities: | |
| Due to the general fund | <u>2,090</u> |
| Cash - beginning | - |
| CASH - ENDING | <u>\$ -</u> |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (1,018) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation | 8,258 |
| Changes in operating assets and liabilities: | |
| Federal and state subsidies receivable | (7,066) |
| Prepaid expenses | (2,440) |
| Accounts payable | <u>176</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>\$ (2,090)</u> |

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

| | <u>Total Agency Funds</u> |
|--------------------------|-------------------------------|
| Assets: | |
| Cash | \$ <u>21,490</u> |
| TOTAL ASSETS | \$ <u>21,490</u> |
| Liabilities: | |
| Due to student groups | \$ <u>21,490</u> |
| TOTAL LIABILITIES | \$ <u>21,490</u> |

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Charter High School of Architecture and Design (the "School") is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997 (the "Act"), and is operating under a charter school contract through 2013, which can be renewed for an additional term. The School is located in Philadelphia, Pennsylvania. During the 2012-2013 school year, the School served children in grades 9 through 12.

The School has financial accountability and control over all activities related to the students' education. The School receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. The reporting entity of the School is based upon criteria set forth by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The GASB has issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34* ("Statement 61"). Statement 61 provides additional criteria for classifying entities as component units to better assess the accountability of school officials by ensuring that the financial reporting entity includes only organizations for which the officials are financially accountable or that are determined by the government to be misleading to exclude. The statement is effective for periods beginning after June 15, 2012. Statement 61 does not have any impact on the School's financial statements.

The accompanying financial statements present the activities of the School. The School is not a component unit of another reporting entity. The decision to include a potential component unit in the School's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. As described below the School has identified a component unit.

Component Unit

Designing Futures Foundation and Affiliates (the "Organization") is a legally separate, tax-exempt component unit of the School. The Organization was organized to acquire and support the School's facilities. Although the School does not control the timing or amounts of receipts from the Organization, the majority of resources, and income thereon, that the Organization holds are restricted to the activities of the School. Because these restricted resources held by the Organization can only be used by, or for the benefit of, the School, the Organization is considered a component unit of the School and is discretely presented in the School's financial statements. The last completed audit dated July 17, 2013, was for the period ended December 31, 2012, and has been included in these financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

The GASB has issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("Statement 62"). Statement 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that are included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Statement 62 does not have any impact on the School's financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by program revenues. These financial statements include the financial activities of the primary government; fiduciary funds are excluded.

The fund financial statements (governmental fund balance sheet and statement of governmental fund revenues, expenditures and changes in fund balance) report on the School's general fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide financial statements

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1. **BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fund financial statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The School reports the following major governmental fund:

General Fund - The general fund is the operating fund of the School and accounts for all revenues and expenditures of the School.

The School reports the following proprietary fund:

Food Service Fund - Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods and services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The School reports the following fiduciary fund:

Student Activities Fund - Used to account for assets held by the School for student groups and are available to the students. The student activities fund is custodial in nature and does not have a measurement focus.

Net Position

The School has adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("Statement 63"). Statement 63 establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). Statement 63 requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of Statement 63 in the School's financial statements was the renaming of "net assets" to "net position," including changing the name of the financial statement from "Statement of net assets" to "Statement of net position." Statement 63 requires the classification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted - This component of net position consists of constraints placed on the use of net assets through external constraints imposed by creditors such as through debt covenants, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance Classification Policies and Procedures

The School follows the provisions of GASB Statement No. 54, *Fund Balances* ("Statement 54"). Statement 54 requires the classification of the School's fund balance into five components: nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as follows:

- Nonspendable - This category is for amounts that can not be spent because they are either (1) not in spendable form or (2) legally or contractually required to remain intact.
- Restricted - This category is the part of the fund balance that is restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or by enabling legislation.
- Committed - This category is the portion of the fund balance that can only be used for specific purposes as a result of formal action by the School's highest level of authority.
- Assigned - This category reflects funds that the School intends to use for a specific purpose but are not considered restricted or committed.
- Unassigned - This category represents the part of the spendable fund balance that has not been categorized as nonspendable, restricted, committed or assigned.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting

The School adopts an annual budget on a basis consistent with GAAP for the general fund. The School is required to present the adopted and final budgeted revenues and expenditures for the general fund that were filed and accepted by the Labor, Education and Community Services Comptroller's Office. The general fund budget appears on page 31.

Use of Estimates

The preparation of financial statements in conformity with 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, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The School's cash consists of cash on hand and demand deposits.

Prepaid Expenses

Prepaid expenses include payments to vendors for services applicable to future accounting periods such as rental payments and insurance premiums.

Receivables

Receivables primarily consist of amounts due from the Pennsylvania Department of Education for federal and state grants and subsidies. Receivables are stated at the amount management expects to collect. As of June 30, 2013, based on historical experience, no allowance has been established.

Capital Assets

Capital assets, which include leasehold improvements and furniture and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a threshold level of \$2,500 or more for capitalizing assets. The School does not possess any infrastructure. The infrastructure is owned by the Organization, which is presented discretely. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are expensed. Capital assets of the School are depreciated using the straight-line method over the useful lives of the assets, which range from three to ten years.

Deferred Outflows/Inflows of Resources

Statement 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. In compliance with Statement 63, the "Statement of net assets" has been renamed the "Statement of net position" and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School has no items that qualify for reporting in this category.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School has no items that qualify for reporting in this category.

Advertising Costs

All costs associated with advertising and promotions are expensed in the year incurred.

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Uncertain Tax Positions

The School accounts for uncertainty in income taxes in which tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of June 30, 2013, the School had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the School had no interest and penalties related to income taxes.

The School files an income tax return in the U.S. federal jurisdiction. With few exceptions, the School is no longer subject to U.S. federal and state tax examinations by taxing authorities for years before fiscal year ended June 30, 2010.

Subsequent Events

The School has evaluated subsequent events through November 22, 2013, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 2. CASH

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School monitors custodial credit risk by periodically reviewing the Federal Deposit Insurance Corporation's ("FDIC") limits and published credit ratings of its depository banks. Accounts are insured by the FDIC up to \$250,000 for all accounts kept at one financial institution. Under Pennsylvania Act 72, financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School has elected for its accounts to be covered under this act.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2. CASH (CONTINUED)

As of June 30, 2013, the custodial risk is as follows:

| | <u>Governmental Activities</u> | <u>Business-type Activity</u> | <u>Component Unit</u> |
|--|------------------------------------|-----------------------------------|---------------------------|
| Uninsured and uncollateralized | \$ - | \$ - | \$ - |
| Collateralized | - | - | - |
| Uninsured and collateral held by the pledging bank's trust department not in the School's name | <u>1,237,030</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 1,237,030</u> | <u>\$ -</u> | <u>\$ -</u> |

Reconciliation to the financial statements:

| | <u>Governmental Activities</u> | <u>Business-type Activity</u> | <u>Component Unit</u> |
|--------------------------------|------------------------------------|-----------------------------------|---------------------------|
| Cash exposed to custodial risk | \$ - | \$ - | \$ - |
| Plus: insured amount | 1,237,030 | - | 534,639 |
| Less: outstanding checks | <u>(37,783)</u> | <u>-</u> | <u>(6,200)</u> |
| | <u>\$ 1,199,247</u> | <u>\$ -</u> | <u>\$ 528,439</u> |

NOTE 3. RECEIVABLES

Receivables at June 30, 2013, consisted of subsidies from federal, state, and local sources. All receivables are considered collectible due to the stable condition of the state and private programs.

A summary of receivables follows:

| <u>Receivables</u> | <u>Amount</u> |
|--------------------|-------------------|
| Federal | \$ 25,382 |
| State | 218,325 |
| Local | <u>117,460</u> |
| | <u>\$ 361,167</u> |

NOTE 4. LOCAL EDUCATIONAL AGENCY ASSISTANCE (REVENUE)

The School receives funding from the School District of Philadelphia on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis.

Charter schools are funded by the local public school district. For non-special education students, the charter school receives for each student enrolled no less than the budgeted total expenditure per average daily membership of the prior school year as defined by the Act. For the year ended June 30, 2013, the rate was \$8,064 per year per student, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. Total revenue from student enrollment was \$6,065,242 for the year ended June 30, 2013.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5. CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2013, was as follows:

Governmental Activities:

| | Balance - June 30, 2012 | Additions | Disposals | Balance - June 30, 2013 |
|--------------------------------|-------------------------------|--------------------|-------------|-------------------------------|
| Leasehold improvements | \$ 873,747 | \$ - | \$ - | \$ 873,747 |
| Furniture and equipment | 477,132 | 39,798 | - | 516,930 |
| Less: accumulated depreciation | (1,109,480) | (52,102) | - | (1,161,582) |
| Capital assets, net | <u>\$ 241,399</u> | <u>\$ (12,304)</u> | <u>\$ -</u> | <u>\$ 229,095</u> |

Depreciation expense for the year ended June 30, 2013, was \$52,102.

Business-type Activity:

| | Balance July 1, 2012 | Additions | Disposals | Balance June 30, 2013 |
|--------------------------------|-------------------------|-------------------|-----------------|-----------------------------|
| Furniture and equipment | \$ 57,806 | \$ - | \$ (262) | \$ 57,544 |
| Less: accumulated depreciation | (24,774) | (8,258) | - | (33,032) |
| Capital assets, net | <u>\$ 33,032</u> | <u>\$ (8,258)</u> | <u>\$ (262)</u> | <u>\$ 24,512</u> |

Depreciation expense for the year ended June 30, 2013, was \$8,258.

NOTE 6. RELATED-PARTY TRANSACTIONS AND FACILITY LEASING ARRANGEMENTS

The School had a series of operating leases for the rental of its facilities with an affiliate who acquired the building during the fiscal year ended June 30, 2005. The leases were set to expire at various times through December 31, 2015, but were extended until March 15, 2043, as described in the "Amended and Restated Lease," dated March 1, 2013. The School has advanced funds to this affiliate, which has been recorded as prepaid rent. It is anticipated that these funds will be charged to operations at the rate of approximately \$11,111 per month for 60 months, which began on September 2009, with the third amendment to the lease agreement. Monthly payments on the lease amounted to \$51,475 during 2013, and fluctuate annually throughout the lease term.

During the year ended June 30, 2013, rent expense under the leases was \$1,065,875.

The following is a schedule of prepaid rent at June 30, 2013:

| | <u>Amount</u> |
|-----------------------|------------------|
| Prepaid rent | \$ 155,556 |
| Less: current portion | <u>133,333</u> |
| | <u>\$ 22,223</u> |

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6. RELATED-PARTY TRANSACTIONS AND FACILITY LEASING ARRANGEMENTS (CONTINUED)

Minimum future lease payments under operating leases as of June 30, 2013, are as follows:

| <u>Year ending June 30:</u> | <u>Amount</u> |
|-----------------------------|----------------------|
| 2014 | \$ 616,964 |
| 2015 | 614,955 |
| 2016 | 615,562 |
| 2017 | 617,913 |
| 2018 | 616,274 |
| Thereafter | <u>15,232,369</u> |
| | <u>\$ 18,314,037</u> |

NOTE 7. RETIREMENT PLAN

The School contributes to the Public School Employees' Retirement System (the "System"), a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the Pennsylvania Public School Employees' Retirement System, which provides retirement and disability benefits, legislative-mandated ad-hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 8101-8535) assigns the authority to establish and amend benefit provisions to the System. The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, P.O. Box 125, Harrisburg, Pennsylvania, 17108-0125. This publication is also available on the PSERS website at www.psers.state.pa.us/publications/general/cafr.htm.

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth.

Member contributions are as follows:

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System prior to, on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001, contribute at 7.50% (Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7. RETIREMENT PLAN (CONTINUED)

- Members who joined the System after June 30, 2011, can choose between two classes of membership and, therefore, two different base contribution rates that are subject to a limited fluctuation based on a "shared risk." Membership Class T-E members have a base employee contribution rate of 7.5%, with shared risk contribution rate levels from 7.5% through and including 9.5%. Membership Class T-F members have a base employee contribution rate of 10.3%, with shared risk contribution rate levels from 10.3% through and including 12.3%.

With the "shared risk" program, members benefit when investments of the fund are doing well and share some of the risk when investments under perform. Membership Class T-E or T-F contribution rates will stay within the specified range, but may increase or decrease by .5% with the specified range once every three years, starting July 1, 2015. The contribution rates for these two membership classes will never go below the base rate or above the highest percentage rate.

Contributions required of the School are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the rate of the School's contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution rate of 11.50% for pension benefits and 0.86% for healthcare insurance premium assistance. Payroll expense for employees covered by the System for the year ended June 30, 2013, was approximately \$3,520,000. The School's contributions to the System for the years ended June 30, 2013, 2012 and 2011, amounted to \$437,616, \$290,476 and \$191,125, respectively.

NOTE 8. COMMITMENT

In July 2011, the School entered into a three-year agreement with an organization for various business services at a monthly rate of \$6,146. The minimum payments under the agreement are as follows:

| <u>Year ending June 30:</u> | <u>Amount</u> |
|-----------------------------|------------------|
| 2014 | \$ <u>73,752</u> |

The School is a co-borrower along with the Organization on a term note in the amount of \$650,000 as described in Note 11.

NOTE 9. GRANT CONTINGENCIES

Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

NOTE 10. LITIGATION

The School is, from time to time, involved in claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, at this time, the ultimate resolution of these matters will not have an adverse effect on the financial position of the School.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11. COMPONENT UNIT

Designing Futures Foundation ("DFF") is organized as a nonprofit corporation in Pennsylvania under the provisions of Section 501(c)(3) of the Internal Revenue Code. DFF commenced operations on July 1, 2004.

The goal of DFF is to provide financial support to the School through fundraising and charitable gifts and through the operations of its interests in L-A Liberty Square Associates, L.P. and DFF Real Estate, LLC.

L-A Liberty Square Associates, L.P. (the "Partnership") is a Pennsylvania limited partnership formed on August 6, 1998, to rent office and classroom space to the School and other tenants. The partnership agreement was amended and restated December 1, 2004. On December 2, 2004, operations commenced under the restated partnership agreement and DFF acquired a 99.99% interest in the Partnership.

DFF Real Estate, LLC (the "Corporation") was formed on November 12, 2004, as a nonrecognized tax entity. Its sole member is DFF. The Corporation acquired a .01% interest as general partner in the Partnership. The Partnership and Corporation are collectively known as the affiliates (the "Affiliates").

Capital Assets

As of December 31, 2012, the Organization's latest reporting period, its capital assets consisted of the following:

| | |
|--------------------------------|----------------------------|
| Building and improvements | \$ 9,532,596 |
| Furniture and equipment | 240,320 |
| Software | <u>20,284</u> |
| | 9,793,200 |
| Less: accumulated depreciation | <u>(2,093,665)</u> |
| | <u><u>\$ 7,699,535</u></u> |

Depreciation expense for the year ended December 31, 2012, was \$286,078.

Rental Operations

The Partnership is a lessor of office space. Commitments for future minimum rental income under noncancelable leases and subleases at December 31, 2012, its latest reporting period, are approximately as follows:

| <u>Year ending December 31:</u> | <u>Amount</u> |
|---------------------------------|----------------------------|
| 2013 | \$ 1,575,702 |
| 2014 | 1,588,497 |
| 2015 | 524,644 |
| 2016 | <u>231,467</u> |
| | <u><u>\$ 3,920,310</u></u> |

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11. COMPONENT UNIT (CONTINUED)

Deferred Revenue

The School, which has a current lease agreement with the Partnership, advanced \$1,200,000 to the Partnership for closing and settlement costs of the building and transfer of partnership interest on December 2, 2004. Accordingly, the advance was recorded as deferred revenue. The amount is to be amortized at the rate of \$11,111 per month over 60 months, which began in September 2009, with the third amendment to the lease agreement.

The following is a schedule of deferred revenue at December 31, 2012, its latest reporting period:

| | <u>Amount</u> |
|--------------------------------|------------------|
| Deferred revenue | \$ 1,200,000 |
| Less: amortized rent | <u>(977,770)</u> |
| | 222,230 |
| Less: accumulated depreciation | <u>(133,332)</u> |
| | <u>\$ 88,898</u> |

Long-term Debt

Long-term debt of the Organization as of December 31, 2012, its latest reporting period, consisted of the following:

| | <u>Amount</u> |
|--|---------------|
| On August 26, 2009, the Organization, Partnership, and School entered into an \$8,200,000 note payable with PNC Bank, N.A. (the "Bank"), payable in 59 equal and consecutive monthly installments of \$54,116, based on a 20-year amortization, with a balloon payment of all outstanding principal and interest due on August 24, 2014. The monthly payment amount represents principal plus interest at the one-month London Interbank Offered Rate ("LIBOR"), adjusted monthly, plus 3%. The effective rate was 3.21% as of December 31, 2012. The note is collateralized by (a) all receipts, revenues, income and other monies received by or on behalf of the Partnership, and (b) real property, fixtures and improvements located at lien on 105-17 South 7th Street, Philadelphia, PA (the "Property"), and assignment of all leases and rents on the Property. There are certain covenants related to this note payable. Such covenants include reporting requirements and financial covenants relating to unrestricted cash balances and debt coverage. The purpose of the note payable was to refinance all of the Partnership's and DFF's then existing indebtedness. Subsequently, the note was repaid in full upon issuance of the bonds, on March 1, 2013. | \$ 6,878,159 |

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11. COMPONENT UNIT (CONTINUED)

On February 3, 2011, the Organization, Partnership, and School, as co-borrowers, entered into a term note with the Bank in the amount of \$650,000. The term note is payable in monthly installments of principal and interest, beginning on March 1, 2011, in the amount of approximately \$11,800. Amounts outstanding under this note bear interest at a rate per annum equal to the daily LIBOR, adjusted monthly, plus 3%. The effective rate was 3.22% as of December 31, 2012. Any outstanding principal and accrued interest is due and payable in full on the maturity date of February 2, 2016. This note is cross collateralized and cross defaulted with the \$8,200,000 note mentioned above, and with all other present and future obligations of DFF and the Bank. Subsequently, the note was repaid in full upon issuance of the bonds, on March 1, 2013.

| | |
|-----------------------|---------------------|
| | 434,392 |
| | 7,312,551 |
| Less: current portion | (560,540) |
| Long-term debt | <u>\$ 6,752,011</u> |

Long-term Debt (Continued)

Principal payments on long-term debt at December 31, 2012, prior to the repayments in March 2013 discussed above, were scheduled to be as follows:

| <u>Year ending December 31:</u> | <u>Amount</u> |
|---------------------------------|---------------------|
| 2013 | \$ 560,540 |
| 2014 | 6,575,021 |
| 2015 | 137,452 |
| 2016 | <u>39,538</u> |
| | <u>\$ 7,312,551</u> |

Terms of the new debt incurred upon the refinancing are discussed below.

Following are changes in long-term debt for the year ended December 31, 2012:

| | Balance January 1, 2012 | <u>Additions</u> | <u>Deductions</u> | Balance December 31, 2012 | Amount Due in One Year |
|---------------|-------------------------------|------------------|---------------------|---------------------------------|------------------------------|
| Notes payable | <u>\$ 7,850,678</u> | <u>\$ -</u> | <u>\$ (538,127)</u> | <u>\$ 7,312,551</u> | <u>\$ 560,540</u> |

On March 1, 2013, DFF and the Partnership borrowed \$8,540,000 of Series 2013 bonds for the refinancing of existing indebtedness and improvements to their facilities. The loan is payable in annual payments of principal and interest, which correspond to the repayment or redemption of the bonds that were issued on behalf of DFF and the Partnership by the Philadelphia Authority for Industrial Development. The bonds are secured by the assets of DFF and the Partnership. The bonds bear interest at 5.25% until March 15, 2023, at which time the interest rate increases to 6.125%. The bonds call for annual mandatory sinking fund redemptions beginning March 15, 2014, with scheduled maturities on March 15, 2023 and 2043.

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(NON-GAAP)
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2013

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Over (Under)</u> |
|--------------------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Final Budget</u> |
| Revenues: | | | | |
| Local educational agencies | \$ 6,017,303 | \$ 6,017,303 | \$ 6,065,242 | \$ 47,939 |
| Other sources | 268,611 | 268,611 | 294,924 | 26,313 |
| State sources | 348,511 | 348,511 | 512,157 | 163,646 |
| Federal sources | <u>448,449</u> | <u>448,449</u> | <u>430,075</u> | <u>(18,374)</u> |
| Total revenues | <u>7,082,874</u> | <u>7,082,874</u> | <u>7,302,399</u> | <u>219,524</u> |
| Expenditures: | | | | |
| Instruction | 3,003,581 | 3,003,581 | 3,256,136 | 252,555 |
| Support services | 3,798,693 | 3,798,693 | 3,970,535 | 171,842 |
| Non-instructional services | <u>47,369</u> | <u>47,369</u> | <u>27,048</u> | <u>(20,321)</u> |
| Total expenditures | <u>6,849,643</u> | <u>6,849,643</u> | <u>7,253,719</u> | <u>404,076</u> |
| Excess of revenues over expenditures | 233,231 | 233,231 | 48,680 | (184,552) |
| Fund balance - beginning | <u>1,283,598</u> | <u>1,283,598</u> | <u>1,465,314</u> | <u>181,716</u> |
| FUND BALANCE - ENDING | <u><u>\$ 1,516,829</u></u> | <u><u>\$ 1,516,829</u></u> | <u><u>\$ 1,513,994</u></u> | <u><u>\$ (2,836)</u></u> |

See accompanying notes to financial statements.

SINGLE AUDIT

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

| <u>Grantor Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass- through Grantor's Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---|---------------------------------|
| U.S. Department of Education, Pass-through the Pennsylvania Department of Education | | | |
| Title I Grants to LEAs | 84.010 | 013-120863 | \$ 163,146 |
| Title I Grants to LEAs | 84.010 | 013-130863 | 241,942 |
| Improving Teacher Quality State Grants | 84.367 | 020-130863 | 24,987 |
| | | | |
| U.S. Department of Agriculture Pass-through the Pennsylvania Department of Education | | | |
| National School Lunch Program | 10.555 | 362 | 124,939 |
| School Breakfast Program | 10.553 | 365 | 17,718 |
| | | | |
| U.S. Department of Education Pass-through the School District of Philadelphia | | | |
| Special Education Grants to States | 84.027 | N/A | <u>120,994</u> |
| Total Federal Financial Assistance | | | <u>\$ 693,726</u> |

See accompanying notes to schedule of expenditures of federal awards.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

NOTE 1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Charter High School for Architecture and Design (the "School"). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the School's financial statements.



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**INDEPENDENT AUDITORS' 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 Board of Trustees
Charter High School for Architecture and Design
Philadelphia, Pennsylvania

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 business-type activity, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Charter High School for Architecture and Design (the "School") as of and for the year ended Charter High School for Architecture and Design, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
November 22, 2013



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

To the Board of Trustees
Charter High School for Architecture and Design
Philadelphia, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Charter High School for Architecture and Design's (the "School") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2013. The School's major federal program is 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program 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 the School'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 the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the School 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 the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program 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 the School'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 been 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.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
November 22, 2013

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Charter High School for Architecture and Design (the "School").
2. No reportable conditions relating to the financial statements are reported in the Independent Auditors' 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*.
3. No instances of noncompliance material to the financial statements of the School were disclosed during the audit.
4. No reportable conditions relating to the audit of major federal award programs are reported in the Independent Auditors' Report for Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award program for the School expresses an unqualified opinion.
6. There were no audit findings that were required to be reported under OMB Circular A-133.
7. The program tested as a major program was Title I Grants to LEAs, CFDA #84.010.
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. The School does not qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

There were no financial statement findings.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

There were no findings and questioned costs for federal awards, which would include audit findings as defined in OMB Circular A-133.