

**CHARTER HIGH SCHOOL FOR
ARCHITECTURE AND DESIGN
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
FOR THE YEAR ENDED JUNE 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

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

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, each major fund, and the aggregate remaining fund information of Charter High School for Architecture and Design (a nonprofit organization) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Charter High School for Architecture and Design's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Charter High School for Architecture and Design as of June 30, 2015, 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

Adoption of Accounting Pronouncements

As discussed in Note 1, Charter High School for Architecture and Design adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4 - 8 and 42 - 44, 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 Charter High School for Architecture and Design'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 January 27, 2016, on our consideration of Charter High School for Architecture and Design'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 Charter High School for Architecture and Design's internal control over financial reporting and compliance.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
January 27, 2016

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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, 2015. 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, 2015, were \$7,627,780, representing a decrease of \$600,965 from June 30, 2014.
- At June 30, 2015, the School reported an ending governmental fund balance of \$1,626,910, representing a decrease of \$272,344 from June 30, 2014.
- The School's cash balance at June 30, 2015, was \$1,244,336, representing a decrease of \$132,867 from June 30, 2014.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's financial statements. The School's financial statements as presented comprise four components: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) the required supplementary information, 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 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 periods (e.g. expenditures accrued in one 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, 2015

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 required supplementary information presented for purposes of additional analysis and is prepared using a basis consistent with 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>2015</u>	<u>2014</u>
Current and other assets	\$ 2,555,521	\$ 2,907,188
Noncurrent assets	<u>289,806</u>	<u>311,800</u>
Total assets	<u>2,845,327</u>	<u>3,218,988</u>
Deferred outflows of resources	<u>1,492,995</u>	<u>-</u>
Current liabilities	891,766	1,228,887
Long-term liabilities	<u>11,700,031</u>	<u>84,218</u>
Total liabilities	<u>12,591,797</u>	<u>1,313,105</u>
Deferred inflows of resources	<u>832,000</u>	<u>-</u>
Net position:		
Net investment in capital assets	205,589	208,780
Unrestricted	<u>(9,291,064)</u>	<u>1,697,103</u>
Total net position	\$ <u>(9,085,475)</u>	\$ <u>1,905,883</u>

See independent auditor's report.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

Overview of the Financial Statements (Continued)

Government-Wide Financial Analysis (Continued)

As noted earlier, net position may serve over time as a useful indicator of a school's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$9,085,475 as of June 30, 2015.

The School's revenues are predominately received from the School District of Philadelphia based on student enrollment. For the year ended June 30, 2015, the School's expenses of \$8,585,765 exceeded its revenues of \$7,834,891 by \$750,874.

	<u>2015</u>	<u>2014</u>
Revenues:		
Local educational agencies	\$ 6,674,076	\$ 6,474,948
Other sources	163,354	623,236
Food services	207,111	223,576
State sources	160,455	565,253
Federal sources	<u>629,895</u>	<u>565,308</u>
Total revenues	<u>7,834,891</u>	<u>8,452,321</u>
Expenditures:		
Other instructional programs	4,267,172	3,837,406
Pupil personnel services	457,116	414,362
Instructional staff services	141,269	185,164
Administrative services	1,307,208	1,290,177
Pupil health	60,976	97,590
Business services	138,877	141,646
Operation and maintenance of plant services	1,487,563	1,551,760
Other support services	345,277	273,000
Food services	224,359	238,220
Student activities	66,650	14,757
Interest expense	11,255	7,558
Depreciation expense	<u>78,043</u>	<u>74,892</u>
Total expenditures	<u>8,585,765</u>	<u>8,126,532</u>
Change in net position	<u>(750,874)</u>	<u>325,789</u>
Net position - beginning, as previously reported	1,905,883	1,580,094
Adjustment to beginning net position (Note 1)	<u>(10,240,484)</u>	<u>-</u>
Net position - beginning, as revised	<u>(8,334,601)</u>	<u>1,580,094</u>
NET POSITION - ENDING	<u>\$ (9,085,475)</u>	<u>\$ 1,905,883</u>

See independent auditor's report.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

Overview of the Financial Statements (Continued)

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, the 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 year.

The general fund is the chief operating fund of the School. At the end of the current year, the unassigned and total fund balance of the general fund was \$1,626,910.

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.

New Accounting Pronouncement

The School was required to adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, relative to its participation in the Commonwealth of Pennsylvania's Public Employees' Retirement System ("PSERS"). Charter schools are required to offer this retirement plan to their employees as a condition of their charter. The Commonwealth controls all aspects of the plan including assets and administration. The School makes contributions as defined by the Commonwealth. Historically, the School has recorded its contributions to the plan as expenses related to the performance of plan administration against its goals. The School recorded an adjustment to net assets of \$10,240,484 for the net liability as of June 30, 2014, as well as \$444,956 in expenses related to plan administrative performance in addition to the required contributions of \$1,210,000. All public schools in Pennsylvania who participate in PSERS are being required to record a proportionate share of the \$39,580,717,000 liability in their financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015, the School's investment in capital assets for its governmental activities and business-type activity totaled \$205,589 (net of accumulated depreciation and related debt). This investment in capital assets includes furniture, machinery, and equipment for the School along with leasehold improvements.

Long-Term Debt

At June 30, 2015, the School had a capital lease payable of \$84,217.

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.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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, 2015

	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type Activity</u>	<u>Total</u>	<u>Component</u> <u>Unit</u>
ASSETS				
Cash and cash equivalents	\$ 1,244,336	\$ -	\$ 1,244,336	\$ 200,074
Restricted cash	-	-	-	864,456
State subsidies receivable	112,231	1,230	113,461	-
Federal subsidies receivable	136,985	26,185	163,170	-
Contributions receivable	-	-	-	250,000
Other receivables	94,027	-	94,027	49,427
Prepaid expenses	5,979	24,479	30,458	4,400
Due from other funds	243,670	-	243,670	-
Due from related parties	637,970	-	637,970	-
Security deposit	28,429	-	28,429	-
Capital assets:				
Nondepreciable capital assets	-	-	-	1,642,530
Building and improvements	-	-	-	11,716,280
Leasehold improvements	911,660	-	911,660	-
Furniture and fixtures	646,362	61,257	707,619	393,038
Machinery and equipment	18,076	-	18,076	-
Software	-	-	-	20,284
Less: accumulated depreciation	(1,297,570)	(49,979)	(1,347,549)	(2,654,325)
Other assets:				
Intangible assets, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>402,197</u>
Total assets	<u>2,782,155</u>	<u>63,172</u>	<u>2,845,327</u>	<u>12,888,361</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	<u>1,492,995</u>	<u>-</u>	<u>1,492,995</u>	<u>-</u>

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2015

	<u>Governmental Activities</u>	<u>Business- Type Activity</u>	<u>Total</u>	<u>Component Unit</u>
LIABILITIES				
Line of credit	-	-	-	176,491
Accounts payable and accrued expenses	181,564	31,336	212,900	449,404
Salaries and benefits payable	414,010	-	414,010	-
Due to related parties	-	-	-	548,901
Due to general fund	-	243,670	243,670	-
Long-term obligations:				
Due within one year:				
Capital lease payable	21,186	-	21,186	-
Bonds payable and long-term debt	-	-	-	272,126
Due beyond one year:				
Bonds payable	-	-	-	8,425,000
Capital lease payable	63,031	-	63,031	-
Long-term debt	-	-	-	474,049
Pension liability	<u>11,637,000</u>	<u>-</u>	<u>11,637,000</u>	<u>-</u>
Total liabilities	<u>12,316,791</u>	<u>275,006</u>	<u>12,591,797</u>	<u>10,345,971</u>
Commitments and contingencies (Notes 6, 7, 8, 9, 10, 11, 12, 13 and 14)				
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	<u>832,000</u>	<u>-</u>	<u>832,000</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	194,311	11,278	205,589	-
Temporarily restricted net assets	-	-	-	38,805
Unrestricted	<u>(9,067,952)</u>	<u>(223,112)</u>	<u>(9,291,064)</u>	<u>2,503,585</u>
Total net position	<u>\$ (8,873,641)</u>	<u>\$ (211,834)</u>	<u>\$ (9,085,475)</u>	<u>\$ 2,542,390</u>

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions	Expenses	Program	Net (Expense) Revenue and Changes in Net Assets			
		Revenues	Governmental	Business-type	Total	Component
		Operating Grants and Contributions				
			Activities	Activity		Unit
Primary government						
Governmental activities:						
Other instructional programs	\$ 4,267,172	\$ 2,634,858	\$ (1,632,314)	\$ -	\$ (1,632,314)	\$ -
Pupil personnel services	457,116	10,724	(446,392)	-	(446,392)	-
Instructional staff services	141,269	-	(141,269)	-	(141,269)	-
Administrative services	1,307,208	-	(1,307,208)	-	(1,307,208)	-
Pupil health	60,976	-	(60,976)	-	(60,976)	-
Business services	138,877	-	(138,877)	-	(138,877)	-
Operation and maintenance of plant services	1,487,563	101,452	(1,386,111)	-	(1,386,111)	-
Other support services	345,277	-	(345,277)	-	(345,277)	-
Food services	-	-	-	(224,359)	(224,359)	-
Student activities	66,650	-	(66,650)	-	(66,650)	-
Interest expense	11,255	-	(11,255)	-	(11,255)	-
Depreciation expense	69,354	-	(69,354)	(8,689)	(78,043)	-
Total governmental activities	<u>\$ 8,352,717</u>	<u>\$ 2,747,034</u>	<u>(5,605,683)</u>	<u>(233,048)</u>	<u>(5,838,731)</u>	<u>-</u>
Component unit:						
Designing Futures Foundation and Affiliates	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,762,819)</u>
General revenues:						
Local educational agencies			4,717,392	-	4,717,392	-
Food services			-	207,111	207,111	-
Rental income			-	-	-	1,561,940
Other revenue			<u>163,354</u>	<u>-</u>	<u>163,354</u>	<u>262,506</u>
Total general revenues			<u>4,880,746</u>	<u>207,111</u>	<u>5,087,857</u>	<u>1,824,446</u>
Change in net position			<u>(724,937)</u>	<u>(25,937)</u>	<u>(750,874)</u>	<u>61,627</u>
Net position - beginning, as previously reported			2,091,780	(185,897)	1,905,883	2,480,763
Cumulative effect of adoption of GASB 68			<u>(10,240,484)</u>	<u>-</u>	<u>(10,240,484)</u>	<u>-</u>
Net position - beginning, as revised			<u>(8,148,704)</u>	<u>(185,897)</u>	<u>(8,334,601)</u>	<u>2,480,763</u>
NET POSITION - ENDING			<u>\$ (8,873,641)</u>	<u>\$ (211,834)</u>	<u>\$ (9,085,475)</u>	<u>\$ 2,542,390</u>

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2015

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,244,336
State subsidies receivable	112,231
Federal subsidies receivable	136,985
Other receivables	94,027
Prepaid expenses	5,979
Due from other funds	243,670
Due from related parties	637,970
Security deposit	<u>28,429</u>
TOTAL ASSETS	\$ <u>2,503,627</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities	
Accounts payable and accrued expenses	\$ 181,564
Salaries and benefits payable	<u>695,153</u>
Total liabilities	876,717
Fund balance	
Unassigned	<u>1,626,910</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>2,503,627</u>

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2015

Total fund balance for the governmental fund **\$ 1,626,910**

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

Long-term liabilities that pertain to the governmental fund, including capitalized lease obligations and net pension obligations, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Those liabilities consist of:

Capital lease obligations	(84,217)	
Net pension liability, net of required contractual liability	<u>(11,355,857)</u>	
		(11,440,074)

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

Leasehold improvements	911,660	
Furniture and fixtures	646,362	
Machinery and equipment	18,076	
Less: accumulated depreciation	<u>(1,297,570)</u>	
		278,528

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental fund. Balances at year end are:

Deferred outflows of resources related to pensions	1,492,995	
Deferred inflows of resources related to pensions	<u>(832,000)</u>	
		<u>660,995</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (8,873,641)**

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND
BALANCE OF THE GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>
Revenues:	
Local educational agencies	\$ 6,674,076
Other sources	163,354
State sources	160,455
Federal sources	<u>629,895</u>
Total revenues	<u>7,627,780</u>
Expenditures:	
Instruction	3,968,705
Support services	3,788,117
Non-instructional services	60,909
Debt service	30,056
Capital outlay	<u>52,337</u>
Total expenditures	<u>7,900,124</u>
Net change in fund balance	(272,344)
Fund balance - beginning	<u>1,899,254</u>
FUND BALANCE - ENDING	<u>\$ 1,626,910</u>

See accompanying notes to financial statements.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN THE FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net change in fund balance - total governmental fund **\$ (272,344)**

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

The governmental fund reports capital lease proceeds as financing sources, while repayment of capital lease principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. The net effect of these differences in the treatment of capital lease payable is as follows:

Repayment of capital lease obligations	18,803
--	--------

The governmental fund reports 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	52,336	
Depreciation expense	<u>(69,354)</u>	
		(17,018)

The governmental fund reports pension contributions as expenditures. However, in the statement of activities, the cost incurred for future pension benefits is reported as pension expense, as follows:

School pension contributions	(1,210,000)	
Cost of benefits earned net of employee contributions	<u>755,622</u>	
		<u>(454,378)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (724,937)**

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	Enterprise Fund
	Food Service Fund
ASSETS	
Current assets:	
Federal subsidies receivable	\$ 26,185
State subsidies receivable	1,230
Prepaid expenses	<u>24,479</u>
Total current assets	<u>51,894</u>
Noncurrent assets:	
Capital assets:	
Furniture and fixtures	61,257
Less: accumulated depreciation	<u>(49,979)</u>
Capital assets, net	<u>11,278</u>
Total assets	<u>63,172</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	31,336
Due to general fund	<u>243,670</u>
Total liabilities	<u>275,006</u>
NET POSITION	
Net investment in capital assets	11,278
Unrestricted	<u>(223,112)</u>
Total net position	<u><u>\$ (211,834)</u></u>

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF ACTIVITIES
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Fund
	<u>Food Service Fund</u>
Operating revenues:	
Food service revenues	\$ <u>54,438</u>
Operating expenses:	
Salaries and benefits	5,187
Food and supplies	210,784
Administrative fees	8,388
Depreciation	<u>8,689</u>
Total operating expenses	<u>233,048</u>
Operating loss	<u>(178,610)</u>
Nonoperating revenues:	
Federal sources	145,906
State sources	<u>6,767</u>
Total nonoperating revenues	<u>152,673</u>
Change in net position	(25,937)
Net position - beginning	<u>(185,897)</u>
NET POSITION - ENDING	\$ <u>(211,834)</u>

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Enterprise Fund
	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from students	\$ 54,438
Payments to suppliers	(224,152)
Payments to employees	<u>(5,187)</u>
Net cash used in operating activities	<u>(174,901)</u>
Cash used in investing activities:	
Additions to property and equipment, net	<u>(3,713)</u>
Cash flows from noncapital financing activities:	
Cash received from federal sources	147,341
Cash received from state sources	6,869
Due to the general fund	<u>24,404</u>
Cash flows provided by noncapital financing activities	<u>178,614</u>
Net change in cash	-
Cash - beginning	<u>-</u>
CASH - ENDING	<u>\$ -</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (178,610)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	8,689
Changes in operating assets and liabilities:	
Accounts payable	<u>(4,980)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (174,901)</u>

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015

	<u>Student Activities Fund</u>
ASSETS	
Cash	\$ <u>17,041</u>
LIABILITIES	
Due to student groups	<u>17,041</u>
NET POSITION	
Unrestricted	\$ <u><u>-</u></u>

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 2018, which can be renewed for additional terms through an application process. The School is located in Philadelphia, Pennsylvania. During the 2014-2015 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 School follows GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34*. Statement No. 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 School follows GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. Statement No. 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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 ("DFF") and Affiliates (collectively 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. The Organization and the School make and receive advances in the normal course of operations, which are non-interest bearing.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Component Unit (Continued)

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 28, 2015, was for the period ended December 31, 2014, and has been included in these financial statements. The statement of net position presents related party receivables and payables which do not reconcile, due to the Organization having a December 31, 2014 year end and the School having a June 30, 2015 year end.

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 No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is 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.

The Organization is accounted for under GAAP as applied to not-for-profit entities and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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 the fund balance) report on the School's general fund.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

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.

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 operating 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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School's enterprise fund are charges to students for sales of food. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The School reports the following fiduciary fund:

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

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, classifies net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- 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 by enabling legislation.
- Unrestricted - 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. Statement No. 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.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Fund Balance Classification Policies and Procedures (Continued)

- 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.

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 42.

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 and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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, 2015, 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 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.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Deferred Outflows/Inflows of Resources

Statement No. 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 No. 63, the statement of net position includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

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.

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.

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, 2015, the School had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the School had no interest or 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 tax examinations by taxing authorities for years before June 30, 2012.

Pensions

The School adopted Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The adoption had an effect on beginning net position of \$10,240,484. Under Statements Nos. 68 and 71, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System ("PSERS") and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms and investments are reported at fair value.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Pending Changes in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement No. 76 identifies the hierarchy of generally accepted accounting principles, in the context of the current governmental financial reporting environment. The provisions of Statements Nos. 72 and 76 are effective for the School's June 30, 2016 financial statements. The effect of implementation has not yet been determined.

Subsequent Events

The School has evaluated subsequent events through January 27, 2016, the date on which these financial statements were available to be issued. Except as disclosed in Notes 10 and 14, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 2. CASH AND CASH EQUIVALENTS

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 bank. 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's accounts are covered under this act.

As of June 30, 2015, the custodial risk is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>
Uninsured and uncollateralized	\$ -	\$ -
Collateralized	-	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	<u>1,004,036</u>	<u>-</u>
Total	<u>\$ 1,004,036</u>	<u>\$ -</u>

Reconciliation to the financial statements:

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>
Cash exposed to custodial risk	\$ 1,004,036	\$ -
Plus: insured amount	250,000	-
Less: outstanding checks	<u>(9,700)</u>	<u>-</u>
	<u>\$ 1,244,336</u>	<u>\$ -</u>

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3. RECEIVABLES

Receivables at June 30, 2015, 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>Governmental Activities</u>	<u>Business-Type Activity</u>
Federal	\$ 136,985	\$ 26,185
State	112,231	1,230
Local	<u>94,027</u>	<u>-</u>
	<u>\$ 343,243</u>	<u>\$ 27,415</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 each non-special education student enrolled the charter school receives 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, 2015, the rate was \$7,990 per year per student for most of the students, 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 \$6,674,076 for the year ended June 30, 2015.

NOTE 5. CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2015, was as follows:

Governmental Activities:

	<u>Balance - July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance - June 30, 2015</u>
Leasehold improvements	\$ 873,747	\$ 37,913	\$ -	\$ 911,660
Furniture and fixtures	631,939	14,423	-	646,362
Machinery and equipment	18,076	-	-	18,076
Less: accumulated depreciation	<u>(1,228,216)</u>	<u>(69,354)</u>	<u>-</u>	<u>(1,297,570)</u>
Capital assets, net	<u>\$ 295,546</u>	<u>\$ (17,018)</u>	<u>\$ -</u>	<u>\$ 278,528</u>

Depreciation expense for the year ended June 30, 2015, was \$69,354.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5. CAPITAL ASSETS, NET (CONTINUED)

Business-Type Activity:

	Balance July 1, 2014	Additions	Disposals	Balance June 30, 2015
Furniture and fixtures	\$ 57,544	\$ 3,713	\$ -	\$ 61,257
Less: accumulated depreciation	(41,290)	(8,689)	-	(49,979)
Capital assets, net	<u>\$ 16,254</u>	<u>\$ (4,976)</u>	<u>\$ -</u>	<u>\$ 11,278</u>

Depreciation expense for the year ended June 30, 2015, was \$8,689.

NOTE 6. OBLIGATIONS UNDER CAPITAL LEASE

Computer equipment costing \$112,994, with a net book value of \$77,212, is held under a capital lease. Future minimum lease payments required under the capital lease are as follows:

Year ending June 30:

2016	\$ 30,056
2017	30,056
2018	30,056
2019	<u>12,524</u>
Total minimum lease payments	102,692
Less: amount representing interest	<u>(18,475)</u>
Present value of minimum lease payments	84,217
Less: current portion of capital lease obligations	<u>(21,186)</u>
Long-term portion of capital lease obligations	<u>\$ 63,031</u>

Changes in capital lease obligations were as follows for the year ended June 30, 2015:

Balance, July 1, 2014	\$ 103,020
Repayments of principal	<u>(18,803)</u>
Balance, June 30, 2015	<u>\$ 84,217</u>

Interest expense on the capital lease was \$11,255 for the year ended June 30, 2015.

NOTE 7. RELATED-PARTY TRANSACTIONS AND FACILITY LEASING ARRANGEMENTS

The School had a series of operating leases for the rental of its facilities with the Organization, which acquired the building during 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. Monthly payments on the leases are approximately \$65,000 through the end of the lease term.

During the year ended June 30, 2015, rent expense under the leases was \$802,279.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7. RELATED-PARTY TRANSACTIONS AND FACILITY LEASING ARRANGEMENTS (CONTINUED)

Minimum future lease payments under operating leases as of June 30, 2015, are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2016	\$ 780,060
2017	780,060
2018	780,060
2019	780,060
2020	780,060
2021-2025	3,900,300
2026-2030	3,900,300
2031-2035	3,900,300
2036-2040	3,900,300
2041-2043	<u>2,145,165</u>
	<u>\$ 21,646,665</u>

NOTE 8. RETIREMENT PLAN

Plan Description

The School contributes to a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the PSERS, which provides retirement and disability benefits, legislative-mandated ad-hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The members eligible to participate in the PSERS include all full-time public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any reporting entities in the Commonwealth of Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 8101-8535) (the "Code") assigns the authority to establish and amend benefit provisions to the PSERS. The PSERS issues an annual financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

The PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E") and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

The contribution policy is established in the Code and requires contributions by active members, employers and the Commonwealth.

Member contributions are as follows:

- Active members who joined the PSERS 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 PSERS 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 PSERS after June 30, 2001 and before July 1, 2011, 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.
- Members who joined the PSERS 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" provision in Act 120. 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%. 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 underperform. Class T-E or T-F contribution rates will stay within the specified range, but may increase or decrease by .5% within the specified range once every three years, starting July 2015. The contribution rates for these two membership classes will never go below the base rate or above the highest percentage rate.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8. RETIREMENT PLAN (CONTINUED)

Contributions (Continued)

The School's contractually required contribution rate for fiscal year ended June 30, 2015, was 21.4% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The School's contributions to the PSERS for the years ended June 30, 2015, 2014 and 2013, amounted to \$755,173, \$707,780 and \$437,616, respectively.

NOTE 9. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2015, the School reported a liability of \$11,637,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS's total pension liability as of June 30, 2013 to June 30, 2014. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School's proportion was 0.0294%, which was an increase of 0.0024% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School recognized pension expense of \$1,210,000. At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	(832,000)
Changes in proportions	792,000	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	700,995	-
	<u>\$ 1,492,995</u>	<u>\$ (832,000)</u>

\$700,995 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

<u>Year ending June 30:</u>	
2016	\$ (17,000)
2017	(17,000)
2018	(17,000)
2019	(17,000)
2020	<u>28,000</u>
	<u>\$ (40,000)</u>

Actuarial assumptions

The total pension liability as of June 30, 2014, was determined by rolling forward the PSERS's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS's Board of Trustees at its March 11, 2011 board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The PSERS's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS's Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Actuarial assumptions (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	19 %	5.0 %
Private markets (equity)	21 %	6.5 %
Private real estate	13 %	4.7 %
Global fixed income	8 %	2.0 %
U.S. long treasuries	3 %	1.4 %
Treasury inflation-protected securities	12 %	1.2 %
High yield bonds	6 %	1.7 %
Cash	3 %	0.9 %
Absolute return	10 %	4.8 %
Risk parity	5 %	3.9 %
Master limited partnerships/Infrastructure	3 %	5.3 %
Commodities	6 %	3.3 %
Financing (LIBOR)	(9)%	1.1 %
	<u>100 %</u>	

The above was the PSERS's Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

Discount rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the PSERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
The School's proportionate share of the net pension liability	\$ <u>14,515,000</u>	\$ <u>11,637,000</u>	\$ <u>9,179,000</u>

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Pension plan fiduciary net position

Detailed information about PSERS's fiduciary net position is available in PSERS's Comprehensive Annual Financial Report which can be found on PSERS's website at www.psers.state.pa.us.

NOTE 10. COMMITMENTS

The School is a co-borrower with the Organization on a joint and several basis on certain debt. The total amount of the loan proceeds has been allocated to the Organization. The terms of the loans are described in Note 14. The School does not have the intention of having to make payments on the amounts allocated to the Organization. The debt agreements require the co-borrowers to comply with nonfinancial and financial covenants. The co-borrowers were not in compliance with certain nonfinancial reporting covenants and financial covenants required by the term note, term loan and line of credit agreements described in Note 14, as of June 30, 2015, and have obtained a waiver from the lender.

NOTE 11. 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 12. 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.

NOTE 13. EMPLOYEE BENEFIT PLAN

The School maintains a savings incentive plan 403(b) for its employees. All employees are eligible. Participants may elect voluntary salary deferrals under the plan up to the maximum permitted by law. The School makes a contribution for certain employees enrolled into the plan at a rate of 5%. Contribution expense for the plan amounted to \$10,228 for the year ended June 30, 2015.

NOTE 14. COMPONENT UNIT

Nature of operations

DFF is organized as a nonprofit corporation in Pennsylvania under the provisions of Section 501(c)(3) of the Internal Revenue Code.

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.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14. COMPONENT UNIT (CONTINUED)

Nature of operations (continued)

L-A Liberty Square Associates, L.P. (the "Partnership") is a Pennsylvania limited partnership, which rents office and classroom space to the School and other tenants. DFF has a 99.99% interest in the Partnership.

DFF Real Estate, LLC (the "Corporation") is a nonrecognized tax entity. Its sole member is DFF. The Corporation has a .01% interest as general partner in the Partnership. The Partnership and Corporation are collectively known as the "Affiliates."

Principles of consolidation

The consolidated financial statements of the Organization were prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the assets, liabilities, revenues and expenses of all majority-owned entities over which the Organization exercises control. All intercompany transactions and balances have been eliminated.

Basis of presentation

The financial statement presentation follows the recommendation of Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2014, the Organization's net assets were unrestricted and temporarily restricted.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Method of accounting

The Organization maintains its records on the accrual basis for financial statement purposes.

Cash and cash equivalents

The Organization considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Income tax status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the IRC.

Uncertain tax positions

The Organization recognizes and measures its unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the consolidated financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14. COMPONENT UNIT (CONTINUED)

Uncertain tax positions (continued)

As of December 31, 2014, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. Additionally, the Organization had no interest or penalties related to income taxes.

The Organization files an income tax return in the U.S. federal jurisdiction. With few exceptions, the Organization is no longer subject to U.S. federal tax examinations by taxing authorities for years before December 31, 2011.

Accounts receivable

Accounts receivable are stated at the amount the Organization expects to collect. The Organization maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectibility of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial conditions of the Organization's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Organization provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Organization has made reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At December 31, 2014, the Organization considered all accounts receivable collectible; accordingly, no allowance for doubtful accounts has been established.

Property and equipment

Property and equipment are carried at cost. Expenditures for maintenance and repairs are expensed currently, while renewals and betterments that materially extend the life of an asset are capitalized. The costs of assets sold, retired, or otherwise disposed of, and the related allowance for depreciation, are eliminated from the accounts, and any resulting gain or loss is recognized.

Depreciation is provided using the straight-line and various accelerated methods over the estimated useful lives of the assets, which are as follows:

Software	3 years
Equipment	7 years
Furniture and fixtures	7 years
Building and improvements	39 years

Bond issuance costs

Costs relating to the issuance of bonds are amortized over the term of the bonds using the straight-line method and are included in "Intangible assets" in the statement of financial position. Amortization of bond issuance costs for the year ended December 31, 2014 was \$13,512.

Real estate commissions

Real estate commissions incurred by DFF in association with the acquisition of a rental lease are amortized using the straight-line method over the term of the lease. Amortization of real estate commissions for the year ended December 31, 2014, was \$15,146.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14. COMPONENT UNIT (CONTINUED)

Net assets

Unrestricted net assets - DFF reports assets whose use is not restricted by donors as unrestricted net assets. Contributions are available for unrestricted use unless specifically restricted by the donor. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Directors.

Temporarily restricted net assets - DFF reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets - Permanently restricted net assets are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be utilized for purposes specified by the donor.

Contributions

Contributions, including unconditional promises to give, are recorded when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Fundraising

Costs of special events are recorded in fundraising expenses and the related revenue is included as fundraising revenues or other income in the consolidated statement of activities and changes in net assets.

Advertising costs

Advertising costs are expensed as incurred and aggregated \$24,750 for the year ended December 31, 2014.

Concentration of credit risk

The Organization places its cash, which may at times be in excess of Federal Deposit Insurance Corporation insurance limits, with high quality financial institutions and attempts to limit the amount of credit exposure with any one institution.

Approximately 53% of the total rental revenue and related escalations included in other income of the Organization for the year ended December 31, 2014, was generated from the School through direct leased property.

Capital assets

As of December 31, 2014, the Organization's latest reporting period, its capital assets consisted of the following:

Building and improvements	\$ 11,716,280
Furniture and equipment	393,038
Software	<u>20,284</u>
	12,129,602
Less: accumulated depreciation	<u>(2,654,325)</u>
	<u>\$ 9,475,277</u>

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14. COMPONENT UNIT (CONTINUED)

Capital assets (continued)

Depreciation expense for the year ended December 31, 2014, was \$293,077.

Rental operations

The Partnership is a lessor of office space. Commitments for future minimum rental income under noncancelable leases and subleases at December 31, 2014, its latest reporting period, are approximately as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2015	\$ 1,403,000
2016	1,111,128
2017	879,922
2018	881,227
2019	881,488
Thereafter	<u>18,617,748</u>
	<u>\$ 23,774,513</u>

Deferred revenue

The School has a current lease agreement with the Partnership, and has advanced funds of \$1,200,000. The advance was recorded as deferred revenue. The amount was amortized at the rate of \$11,111 per month, and has been reduced to zero as of December 31, 2014.

Long-term debt

Long-term debt of the Organization as of December 31, 2014, its latest reporting period, consisted of the following:

On February 3, 2011, DFF, the Partnership, and the School, as co-borrowers, entered into a term note with a bank in the amount of \$650,000. The term note is payable in monthly installments of principal and interest, 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 3.17% as of December 31, 2014. Any outstanding principal and accrued interest is due and payable in full on the maturity date, February 2, 2016. This note was cross-collateralized and cross-defaulted with all other present and future obligations of DFF and the bank. At December 31, 2014, the balance outstanding on the note was \$172,519. Interest incurred on the note amounted to \$11,275 for the year ended December 31, 2014.

On March 20, 2014, DFF, the Partnership, and the School, as co-borrowers, converted an existing line of credit into a term loan with monthly payments of principal and interest of \$2,056 per month for the 48 months until maturity on March 20, 2018. A balloon payment is due when the term loan matures. Before conversion, the line of credit with a commercial bank had a borrowing limit of \$900,000. Amounts outstanding under this note will bear interest at a rate per annum which is at all times equal to (A) the daily LIBOR Rate plus (B) three hundred (300) basis points (3%). The effective rate was 3.16% at December 31, 2014. At December 31, 2014, the balance outstanding on the term loan was \$573,656. Interest incurred on the term loan amounted to \$13,839 for the year ended December 31, 2014.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14. COMPONENT UNIT (CONTINUED)

Long-term debt (continued)

Future maturities of long-term debt are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2015	\$ 162,126
2016	59,739
2017	24,673
2018	<u>499,637</u>
	<u>\$ 746,175</u>

The term note and term loan agreements require co-borrowers to comply with nonfinancial and financial covenants. The co-borrowers were not in compliance with a nonfinancial reporting covenant subsequent to the Organization's year-end and has obtained a waiver from the lender extending the reporting deadline. The co-borrowers were also not in compliance with a financial covenant and nonfinancial reporting covenant as of June 30, 2015, and have obtained a waiver from the lender.

Bonds payable and restricted cash and cash equivalents

On March 1, 2013, DFF and the Partnership borrowed \$8,540,000 of Series 2013 bonds for the refinance 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. The balance payable on the bonds was \$8,425,000 at December 31, 2014. During the year ended December 31, 2014, \$115,000 of the bonds were redeemed. The Organization was not in compliance with a nonfinancial reporting covenant at December 31, 2014, which it cured within the allotted grace period as defined in the agreement.

Future principal and interest requirements of long-term debt based on the schedule of mandatory sinking fund redemption are as follows:

<u>Year Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 110,000	\$ 511,219	\$ 621,219
2016	115,000	511,219	626,219
2017	125,000	511,219	636,219
2018	130,000	511,219	641,219
2019	135,000	511,219	646,219
2020-2024	800,000	2,449,390	3,249,390
2025-2043	<u>7,010,000</u>	<u>8,141,502</u>	<u>15,151,502</u>
	<u>\$ 8,425,000</u>	<u>\$ 13,146,987</u>	<u>\$ 21,571,987</u>

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14. COMPONENT UNIT (CONTINUED)

Bonds payable and restricted cash and cash equivalents (continued)

The principal requirements of funding the mandatory sinking fund are as follows:

<u>Year ending December 31:</u>		
2015	\$	110,000
2016		115,000
2017		125,000
2018		130,000
2019		135,000
2020-2024		800,000
2025-2029		1,055,000
2030-2034		1,420,000
2035-2039		1,915,000
2040-2044		<u>2,620,000</u>
	\$	<u>8,425,000</u>

The Organization also maintains several cash and cash equivalent accounts whereby the funds are restricted pursuant to the bond issuance agreement. Total restricted cash and cash equivalents as of December 31, 2014, was \$864,456.

Line of credit

DFF, the Partnership, and the School, as co-borrowers, maintain a line of credit with a commercial bank with a borrowing limit of \$300,000 that expires on March 20, 2016. Advances under the \$300,000 line of credit will be used for working capital or other general business purposes of the borrower. Amounts outstanding under this note will bear interest at a rate per annum which is at all times equal to (A) the daily LIBOR Rate plus (B) two hundred twenty-five (225) basis points (2.25%). The effective rate was 2.41% at December 31, 2014. Collateral is a pledge of gross revenues and a mortgage on the School property on parity with the Series 2013 bondholders. At December 31, 2014, the balance outstanding on the line of credit was \$176,491. Interest incurred on the line of credit amounted to \$1,415 for the year ended December 31, 2014. The line of credit agreement requires the co-borrowers to comply with nonfinancial and financial covenants. The co-borrowers were not in compliance with a nonfinancial reporting covenant subsequent to the Organization's year-end and has obtained a waiver from the lender extending the reporting deadline.

Support and revenue

The Organization receives substantially all of its revenue from fundraising activities that are generally available for unrestricted use unless specifically restricted by the donor and from rental operations, which are available for unrestricted use.

The Organization has received contributions of cash and pledges from various sources which contain donor-imposed restrictions. During 2014, those contributions amounted to \$38,805 and are included as temporarily restricted net assets in the accompanying consolidated financial statements. During 2014, \$282,487 of previously restricted assets were used for their designated purpose and were released.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14. COMPONENT UNIT (CONTINUED)

Related-party transactions

The Partnership leases a portion of its rental facility to the School under a long-term operating lease ending March 15, 2043, with monthly rental payments of \$64,583. Rent under the lease for the year ended December 31, 2014, was approximately \$775,000. Additionally, included in rental income from the School during the year ended December 31, 2014, is \$88,895 amortized from deferred revenue, as discussed above.

Minimum future rental income receivable as of June 30, 2015, is as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2015	\$ 775,000
2016	775,000
2017	775,000
2018	775,000
2019	775,000
Thereafter	<u>18,600,000</u>
	<u>\$ 22,475,000</u>

DFF, the Partnership, and School make and receive advances in the normal course of operations, which are non-interest bearing. DFF received a pledge on behalf of the School for \$125,000 during 2014 which is also included in "Due to related parties." DFF has received a pledge of \$125,000 for each of the next two years, which will also be owed to the School upon receipt of the pledge. DFF owes the School \$548,901 as of December 31, 2014.

Commitment

In March 2014, DFF entered into an agreement which will expire on June 30, 2015, with a consulting company for fundraising services. Future minimum payments under the agreement are \$34,500 during the year ending December 31, 2015.

Subsequent event

DFF is changing its year end from a calendar year to a fiscal year effective June 30, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<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	\$ 6,906,317	\$ 6,896,317	\$ 6,674,076	\$ (222,241)
Other sources	505,042	440,042	163,354	(276,688)
State sources	600,291	79,244	160,455	81,211
Federal sources	<u>418,033</u>	<u>493,033</u>	<u>629,895</u>	<u>136,862</u>
Total revenues	<u>8,429,683</u>	<u>7,908,636</u>	<u>7,627,780</u>	<u>(280,856)</u>
Expenditures:				
Instruction	4,139,577	4,003,173	3,968,705	(34,468)
Support services	3,806,671	3,781,334	3,788,117	6,783
Non-instructional services	50,287	50,287	60,909	10,622
Debt service	-	-	30,056	30,056
Capital outlay	<u>-</u>	<u>-</u>	<u>52,337</u>	<u>52,337</u>
Total expenditures	<u>7,996,535</u>	<u>7,834,794</u>	<u>7,900,124</u>	<u>65,330</u>
Net change in fund balance	433,148	73,842	(272,344)	(346,186)
Fund balance - beginning	<u>1,899,254</u>	<u>1,899,254</u>	<u>1,899,254</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 2,332,402</u></u>	<u><u>\$ 1,973,096</u></u>	<u><u>\$ 1,626,910</u></u>	<u><u>\$ (346,186)</u></u>

See independent auditor's report.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHERS' PENSION PLAN
Last 10 Fiscal Years***

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
School's proportion of the net pension liability	0.0294 %	0.0270 %
School's proportionate share of the net pension liability	\$ 11,637,000	\$ 11,053,000
School's covered-employee payroll	\$ 3,789,617	\$ 3,840,991
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	307.08 %	287.76 %
Plan fiduciary net position as a percentage of the total pension liability	57.24 %	54.49 %

***Until a full 10-year trend is compiled, the School has presented information for those years for which information is available.**

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF SCHOOL CONTRIBUTIONS
TEACHERS' PENSION PLAN
Last 10 Fiscal Years***

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution	\$ 755,173	\$ 707,780
Contributions in relation to the contractually required contribution	<u>(474,030)</u>	<u>(707,780)</u>
Contribution deficiency	\$ <u>(281,143)</u>	\$ <u>-</u>
School's covered-employee payroll	\$ 3,789,617	\$ 3,840,991
Contributions as a percentage of covered-employee payroll	19.93 %	18.43 %

***Until a full 10-year trend is compiled, the School has presented information for those years for which information is available.**

SINGLE AUDIT

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Pass-through the Pennsylvania Department of Education			
National School Lunch Program	10.555	362	\$ 124,766
School Breakfast Program	10.553	365	<u>21,140</u>
Total Child Nutrition Cluster			<u>145,906</u>
Total U.S. Department of Agriculture			<u>145,906</u>
<u>U.S. Department of Education</u>			
Pass-through the Pennsylvania Department of Education			
Title I Grants to LEAs	84.010	013-140863	103,744
Title I Grants to LEAs	84.010	013-150863	<u>383,008</u>
Total Title I Grants to LEAs			486,752
Improving Teacher Quality State Grants	84.367	020-150863	22,549
Pass-through the School District of Philadelphia			
Special Education Grants to States	84.027	N/A	<u>120,594</u>
Total U.S. Department of Education			<u>629,895</u>
Total Federal Awards			<u>\$ 775,801</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
FOR THE YEAR ENDED JUNE 30, 2015**

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.

NOTE 3. PROGRAM CLUSTERS

In accordance with Subpart A105 of OMB Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

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, each major fund, and the aggregate remaining fund information of Charter High School for Architecture and Design (a nonprofit organization) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Charter High School for Architecture and Design's basic financial statements, and have issued our report thereon dated January 27, 2016. The financial statements of Designing Futures Foundation and Affiliates were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Designing Futures Foundation and Affiliates.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charter High School for Architecture and Design'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 Charter High School for Architecture and Design's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter High School for Architecture and Design's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 Charter High School for Architecture and Design'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002 on pages 51 - 52.

Charter High School for Architecture and Design's Response to Findings

Charter High School for Architecture and Design's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
January 27, 2016



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**INDEPENDENT AUDITOR'S 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

Report on Compliance for Each Major Federal Program

We have audited Charter High School for Architecture and Design's (a nonprofit organization) 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 Charter High School for Architecture and Design's major federal program for the year ended 2016. Charter High School for Architecture and Design's major federal program is identified in the summary of auditor's 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 Charter High School for Architecture and Design'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 Charter High School for Architecture and Design'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 Charter High School for Architecture and Design's compliance.

Opinion on Each Major Federal Program

In our opinion, Charter High School for Architecture and Design complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Charter High School for Architecture and Design 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 Charter High School for Architecture and Design'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 Charter High School for Architecture and Design'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
January 27, 2016

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Charter High School for Architecture and Design (the "School").
2. No significant deficiencies relating to the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the School were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report for Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's 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 Section 510(a) of 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

Finding 2015-01

Criteria:

The School is required to obtain proof of residency and existence for each student.

Condition:

In a review of 25 student files, 2 did not contain proof of residence or proof of existence.

Effect:

Failure to meet the requirements may result in overpayment received from the school districts.

Cause:

Management oversight resulted in the lack of proper follow-up and documentation in the files.

Recommendation:

We recommend that management review all student files to ensure that they contain proper documentation and institute procedures to obtain support for the students' status.

**CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2015-01 (Continued):

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The School will implement a review of all student files and institute revised procedures to ensure that the information is obtained.

Finding 2015-02

Criteria:

Statements of financial interest are required by the Pennsylvania Department of Education to be filed by the School by May 1 of each year for members of the Board of Trustees and senior management.

Condition:

In a review of 8 Board members and senior management, 1 did not file the statement of financial interest.

Effect:

Failure to obtain statements of financial interest on a timely basis is a violation of state law.

Cause:

Need for clarification among Board members as to the requirements for filing form.

Recommendation:

We recommend that all Board members complete the required form by May 1 of each school year.

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Board members are currently reviewing the requirements and will consult with legal counsel as appropriate.

**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.