CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN

FINANCIAL STATEMENTS

JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

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Haefele Flanagan
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, and each major fund of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN** (a nonprofit organization), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the **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 Subsidiaries 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.

Haefele, Flanagan & Co., p.c. | 1000 S. Lenola Road, Building 2, Suite 200, Maple Shade, NJ 08052 | 1515 Market Street, Suite 200, Philadelphia, PA 19102

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, and each major fund of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN** as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Uncertainties Regarding Non-Renewal of Charter

As discussed in Notes 1 and 15 to the financial statements, **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN** is currently operating without a charter as the charter was voted for non-renewal. The potential outcome of this matter, including the future operations of the School, cannot presently be determined. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN** as of June 30, 2017 and for the year then ended, were audited by other auditors whose report, dated January 31, 2018, expressed an unmodified opinion on those financial statements.

Report on Summarized Comparative Information

In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Adoption of Governmental Accounting Standards Board Principles

As described in Note 1 to the financial statements, during the year ended June 30, 2018, **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN** adopted the provisions of Governmental Accounting Standard Board's ("GASB") Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions – an Amendment of GASB Statement No. 45 and GASB Statement No. 74. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 8 and budgetary comparison information, schedule of the proportionate share of the net pension liability, schedule of employer pension contributions, schedule of the proportionate share of the net OPEB liability, schedule of employer OPEB contributions, and notes to required supplementary information on pages 47 – 55 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 an opinion 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 December 19, 2018, on our consideration of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN**'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN**'s internal control over financial reporting and compliance.

Haefele, Flanagan & Co., p.c.

Maple Shade, New Jersey
December 19, 2018

The Board of Trustees of **CHARTER HIGH SCHOOL FOR 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, 2018. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- Total governmental activities revenues, as reported on the statement of activities, for the year ended June 30, 2018 were $8,403,573, which consisted of $6,946,948 from local educational agency funding, $994,443 from federal grants, $152,781 from state funding, and $309,401 from other sources. This revenue represents an increase from the prior year of $1,071,335.
- At the close of the current fiscal year, the School reports an ending governmental fund balance of $249,170. The School's ending fund balance at June 30, 2017 was $(172,292). The increase in fund balance is a result of $421,462 excess of revenues over expenditures for the year ended June 30, 2018.

The School's cash balance at June 30, 2018 was $1,125,637, representing an increase from the prior year of $754,937. The School's cash balance at June 30, 2017 was $370,700.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's financial statements as presented comprise four components: Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information consisting of the budgetary comparison and other information, and reports required under *Government Auditing Standards* and the Uniform Guidance.

Government-Wide Financial Statements

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

The *statement of net position* presents information on all of the School's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *statement of activities* presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Overview of the Financial Statements (continued)

Government – Wide Financial Statements (continued)

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.

Fund Financial Statements

A *fund* is a group of related accounts that are 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 two governmental funds – the general fund and the food service fund.

Notes to the Financial Statements

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities exceeded assets by $10,916,537 as of June 30, 2018, which is an increase in total net position of $529,515 from June 30, 2017. The increase is primarily a result of the increase of school district subsidies received.

	Governmental Activities	
Assets	2018	2017
Cash	$ 1,125,637	$ 370,700
Accounts receivable	146,499	136,466
Federal subsidies receivable	48,323	140,979
State subsidies receivable	117,056	112,987
Due from related party	482,922	476,504
Prepaid expenses and other assets	123,779	168,512
Capital Assets, net of accumulated depreciation	187,362	157,919
Total Assets	2,231,578	1,564,067

Government-Wide Financial Analysis (continued)

	Governmental Activities	
	2018	2017
Deferred Outflows of Resources	$ 1,457,909	$ 2,126,436
Liabilities		
Accounts payable and accrued expenses	$ 208,916	$ 194,671
Salaries and benefits payable	736,200	335,953
Deferred revenue	74,786	-0-
Due to local governments	849,930	614,888
Capital lease obligations, current portion	12,192	26,901
Capital lease obligations, long-term	-0-	12,257
Net OPEB liability	387,000	474,000
Net pension liability	9,384,000	10,903,000
Total Liabilities	11,653,024	12,561,670
Deferred Inflows of Resources	$ 2,953,000	$ 2,574,885
Net Position		
Net investment in capital assets	187,362	157,919
Temporarily restricted	47,400	50,500
Unrestricted	(11,151,299)	(11,654,471)
Total Net Position	$ (10,916,537)	$ (11,446,052)

The School's revenues are predominately from the School District of Philadelphia based on the student enrollment. For the year ended June 30, 2018, the School's total revenues of $8,403,573 exceeded total expenditures of $7,874,058 by $529,515. At June 30, 2017, the School's total expenditures of $7,856,459 exceeded total revenues of $7,332,238 by $524,221. The increase in revenues is due to the increase in subsidy rates after the district reduced rates in the year ended June 30, 2017 and the deferment of federal funds into the June 30, 2018 fiscal year.

Revenues	2018	2017
Local educational agencies	$ 6,946,948	$ 6,356,651
Federal sources	994,443	365,355
State sources	152,781	148,422
Other sources	309,401	461,810
Total revenues	8,403,573	7,332,238

Government-Wide Financial Analysis (continued)

Expenditures	2018	2017
Instruction	3,820,218	3,984,050
Staff support services	459,200	443,345
Instructional support services	12,349	128,207
Administrative support services	1,252,755	1,056,149
Nursing services support	69,049	73,271
Business support services	99,710	101,681
Student activities	48,021	57,298
Non-instructional services	597,575	672,058
Community service	1,148	-0-
Facility services	1,250,634	1,133,178
Food service	260,309	201,039
Interest expense	3,090	6,183
Total expenditures	7,874,058	7,856,459
Change in net position	529,515	(524,221)
Net position, beginning of year, as originally reported	(10,972,052)	(10,447,831)
Cumulative effect of adoption of accounting standard	(474,000)	-0-
Net position, beginning of year, as restated	(11,446,052)	(10,447,831)
Net position, end of year	$(10,916,537)	$ (10,972,052)

Governmental Funds

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

In 2018, the School’s governmental funds (the general and food service funds) reported an ending fund balance of $249,170. For the year ended June 30, 2018, the School’s revenues $8,403,573 exceeded expenditures ($7,982,111) by $421,462. The subsidy revenue received from the School District of Philadelphia was $6,946,948 of total governmental fund revenue. This represents an increase of $590,297 from June 30, 2017 as the rate was decreased during that year. The largest asset in the School’s governmental fund at June 30, 2018 was cash of $1,125,637.

Governmental Fund Budgetary Highlights

At June 30, 2018, the actual revenues were more than budgeted revenues by $203,024, mostly due to the federal money being deferred into the year ended June 30, 2018. Budgeted expenditures exceeded actual expenditures by $191,332, primarily due to more instruction expenditures in the budget offset by legal expenditures, which were significantly higher due to the subsidy rate litigation. Overall net change in fund balance was higher than budgeted due to the mentioned reasons.

Capital Asset and Debt Administration

Capital assets: As of June 30, 2018, the School's investment in capital assets for its governmental activities totaled $187,362, net of accumulated depreciation. This investment in capital assets includes computer equipment, furniture and fixtures, and leasehold improvements. During the year ended June 30, 2018, the School incurred $111,452 in additions to capital assets. Depreciation expense was $82,009 for the year ended June 30, 2018.

Additional information on the School's capital assets can be found in Note 3 of this report.

<u>Long-term debt</u>

At June 30, 2018, the school had capital lease obligations of $12,192, of which all is current.

Economic Factors and Next Year's Budget and Rates

The School's primary source of revenue, per student subsidy, is provided by the School District of Philadelphia, and will change for the fiscal year 2018-2019. The rate per regular education student will be $9,099 and the annual rate per special education student will be $29,300 for the fiscal year 2018-2019.

Future Events that will Financially Impact the School

The School expects enrollment of 620 students. At this time, no other significant events are expected to occur that would have a material financial impact.

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 should be addressed to the School’s Controller, Santilli and Thomson, LLC, 601 Route 73 North, Suite 302, Marlton, NJ 08053.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION
JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	2018		2017	
	School	Foundation	School	Foundation
ASSETS				
Cash	$ 1,125,637	$ 129,051	$ 370,700	$ 158,955
Accounts receivable	146,499	17,432	136,466	81,479
Federal subsidies receivable	48,323	-0-	140,978	-0-
State subsidies receivable	117,056	-0-	112,988	-0-
Due from related party	482,922	-0-	476,504	-0-
Prepaid expenses and other assets	123,779	18,867	168,512	18,867
Restricted escrow deposits	-0-	926,337	-0-	891,308
Capital assets, not being depreciated	-0-	1,642,530	-0-	1,642,530
Capital assets, net of accumulated depreciation	187,362	8,028,192	157,919	8,351,104
Total assets	$ 2,231,578	$ 10,762,409	$ 1,564,067	$ 11,144,243
DEFERRED OUTFLOWS OF RESOURCES	$ 1,457,909	$ -0-	$ 2,126,436	$ -0-
LIABILITIES				
Accounts payable and accrued expenses	$ 208,916	$ 301,174	$ 194,671	$ 265,286
Salaries and benefits payable	736,200	-0-	335,953	-0-
Deferred revenue	74,786	-0-	-0-	-0-
Due to local governments	849,930	-0-	614,888	-0-
Due to related party	-0-	482,922	-0-	476,504
Capital lease obligations, current portion	12,192	-0-	26,901	-0-
Capital lease obligations, long-term	-0-	-0-	12,257	-0-
Note payable to bank	-0-	300,000	-0-	300,000
Long-term debt, current	-0-	24,672	-0-	511,976
Long-term debt	-0-	462,627	-0-	-0-
Bonds payable, current	-0-	135,000	-0-	130,000
Bonds payable, long-term	-0-	7,475,568	-0-	7,597,056
Net OPEB liability	387,000	-0-	474,000	-0-
Net pension liability	9,384,000	-0-	10,903,000	-0-
Total liabilities	$ 11,653,024	$ 9,181,963	$ 12,561,670	$ 9,280,822
DEFERRED INFLOWS OF RESOURCES	$ 2,953,000	$ -0-	$ 2,574,885	$ -0-
NET POSITION				
Net investment in capital assets	187,362	-0-	157,919	-0-
Temporarily restricted	47,400	-0-	50,500	-0-
Unrestricted	(11,151,299)	1,580,446	(11,654,471)	1,863,421
Total net position	$ (10,916,537)	$ 1,580,446	$ (11,446,052)	$ 1,863,421

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

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017)

				2018		2017	
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Assets
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Total Governmental Activities	Total Component Unit	Total Governmental Activities	Total Component Unit
Governmental activities							
Instruction	$ 3,820,218	$ -0-	$ 822,610	$ (2,997,608)	$ -0-	$ (3,744,611)	$ -0-
Staff support services	459,200	-0-	-0-	(459,200)	-0-	(443,345)	-0-
Instructional support services	12,349	-0-	-0-	(12,349)	-0-	(128,207)	-0-
Administrative support services	1,252,755	-0-	-0-	(1,252,755)	-0-	(1,056,149)	-0-
Nursing services support	69,049	-0-	-0-	(69,049)	-0-	(73,271)	-0-
Business support services	99,710	-0-	-0-	(99,710)	-0-	(101,681)	-0-
Student activities	48,021	-0-	-0-	(48,021)	-0-	(57,298)	-0-
Non-instructional services	597,575	-0-	-0-	(597,575)	-0-	(672,058)	-0-
Community service	1,148	-0-	-0-	(1,148)	-0-	-0-	-0-
Facility services	1,250,634	-0-	-0-	(1,250,634)	-0-	(1,133,178)	-0-
Food service	260,309	-0-	171,833	(88,476)	-0-	(75,123)	-0-
Interest expense	3,090	-0-	-0-	(3,090)	-0-	(6,183)	-0-
Total governmental activities	$ 7,874,058	$ -0-	$ 994,443	$ (6,879,615)	$ -0-	$ (7,491,104)	$ -0-
Component Unit							
Other expense	$ 1,491,551	$ -0-	$ -0-	$ -0-	$ (1,491,551)	$ -0-	$ (2,262,117)
Total component unit	$ 1,491,551	$ -0-	$ -0-	$ -0-	$ (1,491,551)	$ -0-	$ (2,262,117)
General revenues							
Local educational agencies				6,946,948	-0-	6,356,651	-0-
State grants and reimbursements				152,781	-0-	148,422	-0-
Rental income				-0-	930,444	-0-	1,136,112
All other revenues				309,401	278,132	461,810	291,052
Total general revenues				7,409,130	1,208,576	6,966,883	1,427,164
Changes in net position				529,515	(282,975)	(524,221)	(834,953)
Net position, beginning of year, as originally reported				(10,972,052)	1,863,421	(10,447,831)	2,698,374
Cumulative effect of adoption of accounting standard				(474,000)	-0-	-0-	-0-
Net position, beginning of year, as restated				(11,446,052)	1,863,421	(10,447,831)	2,698,374
Net position, end of year				$ (10,916,537)	$ 1,580,446	$ (10,972,052)	$ 1,863,421

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	2018			2017
	General Fund	Food Service Fund	Total Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$ 1,104,595	$ 21,042	$ 1,125,637	$ 370,700
Accounts receivable	146,499	-0-	146,499	136,466
Federal subsidies receivable	26,893	21,430	48,323	140,978
State subsidies receivable	116,216	840	117,056	112,988
Due from related party	482,922	-0-	482,922	476,504
Prepaid expenses and other assets	99,300	24,479	123,779	168,512
Due from other funds	437,477	-0-	437,477	369,693
Total Assets	$ 2,413,902	$ 67,791	$ 2,481,693	$ 1,775,841
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts payable and accrued expenses	$ 175,862	$ 33,054	$ 208,916	$ 194,671
Accrued salaries and benefits	736,200	-0-	736,200	768,881
Due to local governments	849,930	-0-	849,930	614,888
Due to other funds	-0-	437,477	437,477	369,693
Total Liabilities	1,761,992	470,531	2,232,523	1,948,133
Fund balance (deficit)				
Nonspendable	99,300	24,479	123,779	168,512
Restricted	47,400	-0-	47,400	50,500
Unassigned	505,210	(427,219)	77,991	(391,304)
Total Fund Balance (Deficit)	651,910	(402,740)	249,170	(172,292)
Total Liabilities and Fund Balance (Deficit)	$ 2,413,902	$ 67,791	$ 2,481,693	$ 1,775,841

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

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	2018	2017
Total fund balance (deficit) for governmental funds	$ 249,170	$ (172,292)
Capital assets and related lease obligations used in governmental funds are not financial resources and therefore are not reported in the funds. These assets and long-term liabilities consist of:		
Computer equipment, furniture and fixtures, and leasehold improvements, net of accumulated depreciation	187,362	157,919
Capital lease obligations	(12,192)	(39,158)
Deferred revenue	(74,786)	-0-
Deferred outflows of resources are not financial resources and therefore, are not reported in the funds.	1,457,909	2,126,436
Long-term liabilities and deferred inflows of resources are not due and payable in the current period and therefore, are not reported in the funds.		
Net OPEB liability	(387,000)	(474,000)
Net pension liability	(9,384,000)	(10,903,000)
Required contractual liability	-0-	432,928
Deferred inflows of resources	(2,953,000)	(2,574,885)
Total net position of governmental activities	$ (10,916,537)	$ (11,446,052)

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

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	2018			2017
	General Fund	Food Service Fund	Total Governmental Funds	Total Governmental Funds
Revenues				
Local educational agencies	$ 6,946,948	$ -0-	$ 6,946,948	$ 6,356,651
Federal sources	822,610	171,833	994,443	365,355
State sources	146,724	6,057	152,781	148,422
Other sources	301,506	7,895	309,401	461,810
Total revenues	8,217,788	185,785	8,403,573	7,332,238
Expenditures				
Instruction	3,830,987	-0-	3,830,987	4,018,800
Staff support services	472,908	-0-	472,908	443,345
Instructional support services	12,349	-0-	12,349	128,207
Administrative support services	1,271,898	50	1,271,948	1,056,149
Nursing services support	69,049	-0-	69,049	73,271
Business support services	97,212	2,498	99,710	101,681
Student activities	49,254	-0-	49,254	57,298
Non-instructional services	601,841	-0-	601,841	672,058
Community service	1,148	-0-	1,148	-0-
Facility services	1,171,842	-0-	1,171,842	1,133,178
Food service	-0-	259,567	259,567	201,039
Debt service	30,056	-0-	30,056	30,056
Capital outlays	111,452	-0-	111,452	9,826
Total expenditures	7,719,996	262,115	7,982,111	7,924,908
Change in fund balance	497,792	(76,330)	421,462	(592,670)
Fund balance (deficit), beginning of year	154,118	(326,410)	(172,292)	420,378
Fund balance (deficit), end of year	$ 651,910	$ (402,740)	$ 249,170	$ (172,292)

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

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2017)

		2018		2017
Change in fund balance - Total governmental funds		$ 421,462		$ (592,670)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized, and the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.				
Capital outlays	111,452		9,826	
Depreciation expense	(82,009)		(66,352)	
		29,443		(56,526)
The governmental funds report capital lease and loan proceeds as financing sources, while the repayment of the lease/loan principal is reported as an expenditure. In the statement of net assets, however, the capital lease/loan obligations increase long-term liabilities and do not affect the statement of activities and payment of obligations reduce the liability. The net effect of these differences in the treatment of capital leases/loans is as follows:				
Principal repayment on capital leases		26,966		23,873
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.				
Deferred Revenue		(74,786)		-0-
OPEB benefit (expense)		31,021		-0-
Pension benefit (expense)		95,409		101,102
Change in net position of governmental activities		$ 529,515		$ (524,221)

Note 1 – Summary of Significant Accounting Policies

Nature of Entity

The Architecture & Design Charter High School, commonly referred to as the Charter High School for 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 School is located in Philadelphia, Pennsylvania and serves children in grades 9 through 12. The School operated under a five (5) year charter school contract that ended June 2018, and was voted for non-renewal (see Note 16).

Component Unit

The School has a component unit, the Designing Futures Foundation and Subsidiaries (collectively, the "Foundation"), which are legally separate, tax-exempt entities. The Foundation was organized to acquire and support the School's facilities. The School does not control the timing or amounts of receipts from the Foundation, however, the majority of resources and income that the Foundation holds are restricted to activities of the school. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the School, the Foundation is considered a component unit of the School and is discretely presented in the School's financial statements. See Note 15 for further discussion.

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 Governmental Accounting Standards Board ("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.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on all of the activities of the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of a given segment are affected by program

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include federal contracts for specified instruction related services. State and local educational agency contract revenues and other items not included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements 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.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liability rather than expenditure.

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 365 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Operating grants, capital grants, contributions, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when the School receives cash.

Under current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of “available spending resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during the period.

Note 1 – Summary of Significant Accounting Policies (continued)

<u>Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)</u>

Fund Financial Statements (continued)

Because of their spending measurement focus, expenditure recognition for governmental fund types exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year the resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as another financing source rather than a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims for judgments, are recorded only when payment is due.

The School reports the following major governmental funds:

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

Food Service Fund – The Food Service Fund is a Governmental Fund that is used to account for the Food Service Program.

Net Position/Fund Balances

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- Restricted – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2018, the School had $47,400 of restricted net assets from grantor purpose of use designations.

- Unrestricted – This category represents the net position of the School that is not restricted for any project or other purpose.

Note 1 – Summary of Significant Accounting Policies (continued)

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

Net Position/Fund Balances (continued)

The governmental financial statements segregate portions of fund balance that are either not available or have been earmarked for specific purposes. Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

- Nonspendable – This classification includes amounts that cannot be spent either because they are in a nonspendable form, such as inventories or prepaid expenses, or they are legally or contractually required to be maintained intact.

- Restricted – This classification includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. At June 30, 2018, the School had $47,400 of restricted net assets from grantor purpose of use designations.

- Committed – This classification includes amounts that can be used only for the specific purposes determined by a resolution of the School's Board of Trustees.

- Assigned – This classification includes amounts that are intended to be used by the School for specific purposes, but do not meet the criteria to be classified as restricted or committed. It is the School's policy that the Board of Trustees is authorized to assign amounts to specific purposes.

- Unassigned – This classification includes all spendable amounts not contained in other classifications.

When both restricted or unrestricted fund balances are available, it is the policy of the School to use restricted resources first; followed by committed and then assigned resources as they are needed for the included program, but they reserve the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with GAAP. An annual budget is adopted for the General Fund.

The Budgetary Comparison Schedule should present both the original and the final appropriated budgets for the reporting period. The School only has a general fund budget; therefore, the

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

original budget and the final budget were filed and accepted by the Labor, Education, and Community Services Comptroller's Office. The budget is required supplementary information.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes the estimates that have been used are reasonable, actual results could vary from the estimates that were used.

Cash

The School's cash is considered to be cash on hand and demand deposits.

Receivables

Receivables consist of subsidies from federal, state, and local authorities under various programs and grants. Receivables are stated at the amount management expects to collect for outstanding balances. At June 30, 2018, no allowance for doubtful accounts was deemed necessary.

Prepaid Expenses

Prepaid expenses at June 30, 2018 include payments to vendors for services applicable to future accounting periods such as professional retainers or rental payments and insurance premiums.

Capital Assets

Capital assets, which include computer equipment, machinery and equipment, furniture and fixtures, and leasehold improvements, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a threshold level of $2,500 or more for capitalizing assets. The School does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged to expense as incurred. Capital assets of the School are depreciated using the straight-line method over the useful lives of the assets; computer equipment (5 years), machinery and equipment (5 years), furniture and fixtures (7 years), and leasehold improvements (2 to 3 years).

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources

Decreases in net assets that relate to future periods are recorded as deferred outflows of resources in a separate section of its government-wide statement of net position. Deferred outflows of resources are generally reported in the School's statement of net position for contributions made subsequent to the measurement date.

Deferred Inflows of Resources

Increases in net assets that apply to future periods are recorded as deferred inflows of resources in a separate section of its government-wide statement of net position. Deferred inflows of resources are reported in the School's statement of net position for actual pension plan investment earnings in excess of projected amounts included in determining pension expense. Deferred inflows of resources are attributed to pension expense over a total of 5 years, including the current year.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, 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. Investments are reported at fair value.

Other Postemployment Benefits

For purposes of measuring the net other postemployment benefits plan ("OPEB") liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. For the year ended June 30, 2018, the School had no unrelated business income. The School has appropriate support for any tax positions taken, and as such, does not

Note 1 – Summary of Significant Accounting Policies (continued)

Income Tax Status

have any uncertain tax positions that are material to the financial statements. The School's Federal Exempt Organization Income Tax Returns (Form 990) for 2017, 2016, and 2015, are subject to examination by the IRS, generally for up to three years after filed.

Reclassification

Certain items have been reclassified on the June 30, 2017 financial statements for comparison purposes with the June 30, 2018 financial statements. The change in net position and net position on the statements of net position and activities remained unchanged as a result of these reclassifications. The fund balance for the food service and total governmental funds on the balance sheet – governmental funds and the statement of revenues, expenditures, and changes in fund balance – governmental funds decreased by $1,532.

Adoption of New Accounting Standards

During the year ended June 30, 2018, the School adopted the provisions of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions – an Amendment of GASB Statement No. 45 and GASB Statement No. 74." This statement changes the accounting for postemployment benefits recording the School's portion of net other postemployment benefits liability and deferred inflows and outflows related to other postemployment benefits.

Effective July 1, 2017, the School changed its method of recognizing OPEB expense and related liabilities in its financial statements to conform with the above statements. The change was adopted retroactively. As a result, the cumulative effect of applying the new method retroactively as of July 1, 2017 was to record a net pension liability of $474,000 and a decrease in net position of $474,000.

Recent Accounting Pronouncements Not Yet Adopted

Leases

In June 2017, the GASB issued GASB Statement No. 87, "Leases." The primary objective of the Statement is to enhance the relevance and consistency of information about governments' leasing activities by requiring lessees to recognize certain lease assets and lease liabilities on the balance sheet that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement also requires disclosures related to the timing, significance, and purpose of a government's leasing arrangements. Under the Statement, a lessee is required to recognize a lease liability and an

Note 1 – Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Adopted (continued)

Leases (continued)

lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The School is currently evaluating the Statement and its impact on the financial statements.

Note 2 – Deposit Risk

Custodial credit risk is the risk that in the event of a failure of the counterparty, the School will not be able to recover the value of its deposits or collateral securities that are in possession of an outside party. The School does not have a policy for custodial credit risk. At June 30, 2018, the School's bank balances were not exposed to custodial credit risk as shown in the following table:

Reconciliation to the Financial Statements

Collateralized pursuant to PA Act 72	$ 878,550
Plus: insured amount	250,000
Less: outstanding checks	(2,913)
Plus: deposits in transit	-0-
Total cash per financial statements	$ 1,125,637

Periodically, the School may maintain deposits in excess of the Federal Deposit Insurance Corporation's limit of $250,000, with financial institutions. 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 by this act.

Note 3 – Capital Assets

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

	Beginning	Additions	Disposals	Ending
Computer equipment	$ 174,649	$ 111,452	$ -0-	$ 286,101
Machinery and equipment	21,789	-0-	-0-	21,789
Furniture and fixtures	539,083	-0-	-0-	539,083
Leasehold improvements	911,660	-0-	-0-	911,660
Total	1,647,181	111,452	-0-	1,758,633
Accumulated depreciation	(1,489,262)	(82,009)	-0-	(1,571,271)
	$ 157,919	$ 29,443	$ -0-	$ 187,362

Note 3 – Capital Assets (continued)

Depreciation expense for the year ended June 30, 2018 was $82,009, and is included in facility services and food services on the statement of activities.

Note 4 – Local Educational Agency Revenue

Charter schools are funded by the local public school district in which each student resides. The rate per student is determined annually and is based on the budgeted total expenditure per average daily membership of the prior school year for each school district. The majority of the students for the School reside in Philadelphia. For the year ended June 30, 2018, the rate for the School District of Philadelphia was $8,327 per year for regular education students and $26,197 for special education students. The annual rate is paid monthly by the School District of Philadelphia and is prorated if a student enters or leaves during the year.

For the year ended June 30, 2018, total revenue from local educational agencies was $6,946,948 including $4,285,339 for regular education students and $2,661,609 for special education students.

Note 5 – Government Grants and Reimbursement Programs

The School participates in numerous state and federal grant and reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and reimbursement programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants and reimbursement programs, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 may be impaired.

In the opinion of the School, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note 6 – Capitalized Lease Obligations

The company leases certain computer equipment under leases classified as capital leases. The economic substance of the lease is that the Company is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Company's assets and liabilities.

Included in the cost of computer equipment at June 30, 2018 is $112,994, representing the cost of assets under capitalized lease obligations. Accumulated depreciation at June 30, 2018 for the capitalized leases was $103,578. Depreciation expense for the year ended June 30, 2018 for the capitalized leases was $22,599.

Note 6 – Capitalized Lease Obligations (continued)

The total monthly payments under capital leases total $2,505. Interest expense for the year ended June 30, 2018 totaled $3,090. The balance of the capital lease obligation at June 30, 2018 was $12,192, all of which is current.

Note 7 – Related Party Transactions

Facility Leasing Arrangement

The School leases the 105 South 7th Street High School from L-A Liberty Square Association, L.P., a subsidiary of Designing Futures Foundation, the designated foundation for the School. The lease has a thirty (30) year term with an expiration date of March 15, 2043. The base payment amount of $64,583 per month remains constant throughout the term of the leases. Total lease expense under this agreement for the year ended June 30, 2018 was $829,635, which includes a $50,000 administrative fee and additional operating expenditures, and is included in facility services expenses on the accompanying Statement of Activities.

Future minimum annual payments required under non-cancelable operating lease agreements as of June 30, 2018 are as follows:

Year Ending June 30,	
2019	$ 775,000
2020	775,000
2021	775,000
2022	775,000
2023	775,000
Thereafter	15,274,000
	$ 19,149,000

As described above and in Note 13, the School has a lease agreement as a means to transfer funds sufficient to service the Foundation's debt obligations. The Foundation's bond agreement incorporates, by reference, the financial covenants applicable to the School in the facility lease agreement.

Due from Related Party

Net amounts due from related party consists of amounts shared for general and administrative expenses paid on behalf of the Foundation by the School. Advances are non-interest bearing and have no stated repayment terms, but are expected to be repaid within one year. At June 30, 2018, amounts due to the School from the Foundation were $482,922.

Note 8 – Management Fee

Santilli & Thomson, LLC provides management services for the School under a management agreement that expires June 30, 2019. Total fees incurred under the management agreement for the year ended June 30, 2018 were $82,604 and is included in business services expenses on the accompanying Statement of Activities.

Future minimum payments under the contract at June 30, 2018 are as follows:

Year ending June 30,	
2019	$ 85,500

Note 9 – Retirement Plans

General information about the Public School Employees' Retirement System

Plan description

The School contributes to the Public School Employees' Retirement System (the "System", or "PSERS"), a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly 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 of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits provided

PSERS provides retirement, disability, and death benefits. Members are generally eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with thirty or more years of credited service; or (c) thirty-five or more years of service regardless of age. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary multiplied by the number of years of credited service.

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.

Note 9 – Retirement Plans (continued)

General information about the Public School Employees' Retirement System (continued)

Benefits provided (continued)

Death benefits are payable upon the death of an active member who has generally reached age 62 with at least one year of credited service. 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 rate of contribution for members range from 5.25% - 10.3% depending upon member classification and elections. The School's contractually required contribution rate for fiscal year ended June 30, 2018 was 31.74% 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. Contributions to the pension plan from the School were $650,888 for the year ended June 30, 2018.

Note 10 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The components of the total net pension liability of the participating employers at the June 30, 2017 measurement date were as follows:

Total pension liability	$ 102,543,741,000
Plan fiduciary net position	(53,155,336,000)
Employer net pension liability	$ 49,388,405,000
Plan fiduciary net position as a percentage of the total pension liability	51.84%

At June 30, 2018, the School reported a liability of $9,384,000 representing its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The School's proportionate share 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, 2017, the School's proportion was 0.019%, which was a decrease of 0.00003 in amount and 13.6% in percentage change from its proportion measured at June 30, 2016 of 0.022%.

For the year ended June 30, 2018, the School recognized pension expense of $555,481. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Note 10 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 98,000	$ 57,000
Net difference between projected and actual investment earnings	217,000	-0-
Changes in proportions	219,000	2,823,000
Changes in assumptions	256,000	-0-
Contributions subsequent to the measurement date	650,888	-0-
Total	$ 1,440,888	$ 2,880,000

$650,888 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30,	
2018	$ (601,000)
2019	(628,000)
2020	(558,000)
2021	(303,000)
	$ (2,090,000)

Actuarial Assumptions

The total pension liability at June 30, 2017 was determined by rolling forward the System's total pension liability at June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment return – 7.25%, includes inflation at 2.75%.
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Note 10 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Investments

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 pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. The adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class at June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	(20%)	1.1%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that 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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 10 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Sensitivity of the School's Proportionate Share of the Net Pension Liability

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Net pension liability	$11,551,000	$9,384,000	$7,554,000

Pension Plan Fiduciary Net Position

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

403(b) Plan

The School maintains a 403(b) plan, known as the PSERS Alternative Plan, which is available to all eligible employees. For employees who elect to participate, deferrals of salary can be made up to the maximum permitted by law. The School will make a mandatory match of 5%. The School's expense to the Plan for the year ended June 30, 2018 was $67,211.

Note 11 – Other Postemployment Benefits Plan

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

PSERS provides Premium Assistance which, is a governmental cost-sharing, multiple-employer OPEB for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program.

Note 11 – Other Postemployment Benefits Plan (continued)

General Information about the Health Insurance Premium Assistance Program (continued)

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retied after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Pension Plan Description

PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly 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 of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. At the June 30, 2017 measurement date, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The School's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% 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. Contributions to the OPEB plan from the School were $17,021 for the year ended June 30, 2018.

Note 12 – OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The components of the total net OPEB liability of the participating employers at the June 30, 2017 measurement date, were as follows:

Total OPEB liability	$ 2,161,155,000
Plan fiduciary net position	(123,743,000)
Employer net OPEB liability	$ 2,037,412,000
Plan fiduciary net position as a percentage of the total OPEB liability	5.73%

At June 30, 2018, the School reported a liability of $387,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured at June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The School's proportionate share of the net OPEB 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, 2017, the School's proportion was 0.019%, which was a decrease of 0.00003 in amount and 13.6% in percentage change from its proportion measured at June 30, 2016 of 0.022%.

For the year ended June 30, 2018, the School recognized an OPEB benefit of $14,000. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Changes in proportion	$ -0-	$ 55,000
Changes of assumptions	-0-	18,000
Contributions subsequent to the measurement date	17,021	-0-
Total	$ 17,021	$ 73,000

$17,021 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Note 12 – OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Years ending June 30,		
2018	$	(12,000)
2019		(12,000)
2020		(12,000)
2021		(12,000)
2022		(12,000)
Thereafter		(13,000)
	$	(73,000)

Actuarial Assumptions

The total OPEB liability at June 30, 2017 was determined by rolling forward the System's total OPEB liability at June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay.
- Investment Return – 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is called at $1,200 per year
- Assumed Healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate Pre age 65 at 50%
  - Eligible retirees will elect to participate Post age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation at June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.

Note 12 – OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Actuarial Assumptions (continued)

- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consist of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

OPEB Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
	100%	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class at June 30, 2017.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13%. Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to

Note 12 – OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Discount Rate (continued)

establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20-year Municipal Bond Rate at June 30, 2017 was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the School's proportionate share of the net OPEB liability to change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than $1,200 in annual Premium Assistance. At June 30, 2017, the retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of $1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of $1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of $1,200 per year. The actual number of retirees receiving less than the $1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the School's net OPEB liability for June 30, 2017, calculated using current Healthcare cost trends as well as what the School's net OPEB liability would be if Healthcare cost trends were 1-percentage point lower or 1-percentage point higher than the current rate.

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB liability	$387,000	$387,000	$387,000

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

The following presents the School's net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or 1-percentage point higher (4.13%) than the current discount rate:

Note 12 – OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Sensitivity of the School's proportionate share of the net OPEB liability to changes in the discount rate (continued)

	1% Decrease 2.13%	Current Discount Rate 3.13%	1% Increase 4.13%
Net OPEB liability	$440,000	$387,000	$343,000

OPEB Plan Fiduciary Net Position

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

Note 13 – Risk Management

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. There has been no significant reduction in insurance coverage from the previous year in any of the School's policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three years.

Note 14 – 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 which may be disallowed by the grantor cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

Due to Local Governments

Included in the due to local governments amount on the statement of net position is $773,153 related to school district redirects for the years ended June 30, 2015 and 2016. The School contested a mid-year rate change by the School District of Philadelphia and in response, the school district countered with their own appeal. As of the report date, the School has a settlement with the school district, agreeing to pay back $257,715 for the 2015 – 2016 school year by December 31, 2018. The amount for the 2016 – 2017 school year remains open.

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries)

NATURE OF ACTIVITIES

Designing Futures Foundation (the "Foundation"), formed in 2003, is a nonprofit corporation established under the laws of the Commonwealth of Pennsylvania. The Foundation is considered to be a component unit of Charter High School for Architecture and Design (the "School"), an exempt organization under Section 501(c)(3) of the Internal Revenue Service Code, that operates a public charter school for high school children in grades 9 through 12. As a component unit, the Foundation, although a legally separate entity, is in substance, part of the School's operations. The Foundation has no component units for which it is considered to be financially accountable. The Foundation's mission is to provide financial support to the School through fundraising and charitable gifts and through the operations of its interest in L-A Liberty Square Associates, L.P. and DFF Real Estate, LLC. The Foundation is organized and operated under provisions of Section 501(c)(3) of the Internal Revenue Service Code.

L-A Liberty Square Associates, L.P. (the "Partnership"), formed in 1998, is a Pennsylvania limited partnership. The partnership agreement was amended and restated on December 1, 2004 and the Foundation acquired 99.99% interest in the Partnership on December 2, 2004. The Partnership rents office and classroom space to the School and other tenants and operations commenced under the restated partnership agreement on December 2, 2004. The Partnership is not a recognized tax entity and all income and losses are reported on the Foundation's tax filing.

DFF Real Estate, LLC ("the Corporation"), was formed in 2004. The Corporation acquired a 0.01% interest as general partner in L-A Liberty Square Associates, L.P. The Corporation is a non-recognized tax entity and its sole member is the Foundation. Collectively, the Partnership and the Corporation are referred to as the "Subsidiaries."

Basis of Consolidation

The consolidated financial statements include the results of the Foundation and Subsidiaries (collectively, the "Organization") and were prepared in accordance with GAAP and include the assets, liabilities, revenues and expenses of all majority-owned entities over which the Foundation exercises control. The Foundation maintains a controlling financial interest in the Partnership and the Corporation described above as defined under the consolidation guidelines. All inter-company accounts and transactions have been eliminated in the consolidation.

Basis of Accounting

The consolidated financial statements of the Foundation have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries) (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Financial statement presentation follows the recommendations of the FASB Accounting Standards Codification ("ASC") Topic 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Foundation 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. At June 30, 2018, the Organization's net assets were unrestricted.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes the estimates that have been used are reasonable, actual results could vary from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of financial position and statement of cash flows, the Foundation considers all demand deposits at financial institutions and highly liquid debt instruments with an original maturity of three months or less to be considered cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount the Foundation expects to collect from balances outstanding at year-end. Based on the Foundation's assessment of these balances and communications with customers, it has concluded that realization losses, if any, would be minimal. At June 30, 2018, the Foundation considered all accounts receivable to be collectible; accordingly, no allowance for doubtful accounts is necessary.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the assets. The estimated useful lives of assets for financial reporting purposes are as follows: building and improvements, 39 years; software, 3 years; furniture and equipment, 7 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments that materially extend the life of an asset are

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries) (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (continued)

capitalized. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in the income.

The Foundation reviews the carrying value of its property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. Based on these reviews, there were no adjustments to the carrying value of long-lived assets for the year ended June 30, 2018.

Bond Issuance Costs

Bond issuance costs incurred by the Foundation in connection with the issuance of revenue bonds, discussed in the *BONDS PAYABLE* note below, are amortized over the 30 year life of the bonds using the straight line basis. The unamortized balance is reported as a direct reduction of the obligation to which such costs relate. Amortization of bond issuance costs, included in interest expense, for the year ended June 30, 2018, was $13,512. Accumulated amortization of bond issuance costs at June 30, 2018 was $173,298.

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 recorded when the conditions on which they depend are substantially met.

Fundraising

Costs of special events are recorded as an expense in fundraising expenses and the related revenue is included as contributions or other income.

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries) (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Foundation is a not-for-profit organization that is exempt from income taxes under section 501 (c) (3) of the Internal Revenue Code, and classified by the Internal Revenue Service as other than a private foundation. The Commonwealth of Pennsylvania also recognizes the Foundation as tax-exempt. The Organization follows the accounting guidance for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. The Organization believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's Federal Exempt Organization Business Income Tax returns (Form 990) for 2017, 2016, and 2015 are subject to examination by the IRS, generally three years after they were filed.

Net Assets

Unrestricted Net Assets – The Foundation 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 Trustees.

Temporarily Restricted Net Assets – The Foundation 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 classified to unrestricted net assets and reported as net assets released from restrictions. At June 30, 2018, the Foundation had no Temporarily Restricted Net Assets.

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. At June 30, 2018, the Foundation had no Permanently Restricted Net Assets.

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries) (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements Not Yet Adopted

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes and replaces nearly all existing GAAP revenue recognition guidance, including industry-specific guidance. The core principle of the standard is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The standard requires significantly expanded disclosures about revenue recognition and is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Foundation is currently evaluating the standard and its impact on the Foundation's consolidated financial statements.

New Not-For-Profit Standard

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit ("NFP") Entities (Topic 958) "Presentation of Financial Statements of Not-for-Profit Entities." The primary objectives of this standard are intended to improve financial statement presentation by NFP organizations. The new guidance requires NFPs to improve their presentation and disclosures to provide more relevant information about their resources (and changes in those resources) to their donors, grantors, creditors, and other users. There are qualitative and quantitative requirements in a number of areas, including net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, and statement of cash flows, investment returns, and release of restrictions on capital assets. The standard is effective for fiscal years beginning after December 15, 2017. The Foundation will adopt this standard on a retrospective basis for the year ending June 30, 2019.

ESCROW DEPOSITS

The Foundation maintains various escrow deposit accounts required pursuant to the bond issuance agreement. Amounts maintained in the accounts include highly liquid investments in money market accounts with an initial maturity of three months or less at a financial institution. These restricted balances are limited in use, and are reported as escrow deposits because the Foundation holds those funds for specific purposes as discussed below. All escrow deposits are considered unrestricted net assets.

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries) (continued)

ESCROW DEPOSITS (CONTINUED)

Revenue Funds

The Revenue Fund escrow was set up to directly receive the portion of the School's monthly lease payments, which are used to fund the escrow accounts pursuant to the bond settlement agreement. The receipts are transferred from this account to the other funds as detailed under each respective fund's description.

Debt Service Reserve Funds

The Debt Service Reserve Fund escrow accounts were funded from the 2013 Series Bonds and are to be used in the event that the monies in the Debt Service Fund are insufficient to make the necessary principal and interest bond payments on the 2013 Bonds.

Repair and Replacement Fund

One Repair and Replacement Fund Escrow account is required for the 2013 Bond. The Foundation is required to deposit approximately $2,000 monthly into this fund commencing in March 2014 until such time that the Repair and Replacement Fund requirement of $150,000 has been satisfied for each fund. The funds in this escrow are to be used in association with costs of improvements to the School facility, repairs, or replacement parts of the school facility, and to purchase equipment needed for the School.

Debt Service Funds

The Debt Service Fund Escrow is used for the payment of the principal and premium, if any, and interest on the bonds as due. It was set up to directly receive loan payments each month from the borrower, equal to the basic rentals under the lease agreement, and for payment of interest and principal payments on the bonds. Also, retained in this fund is the interest or other income received on investment of monies in the fund. Any additional funds needed will first be drawn from the Debt Service Reserve Fund and paid in the order of maturity, interest due first including interest on overdue principal, and then principal. Amounts remaining in the fund after all requirements are met will be paid to the borrower upon expiration of the agreement.

A summary of the principal escrow accounts held by the Foundation, comprised of money market accounts, at June 30, 2018 is as follows:

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries) (continued)

ESCROW DEPOSITS (CONTINUED)

Revenue Fund	$ 2,272
Debt Service Reserve Fund	619,006
Debt Service Fund	201,940
Repairs and Replacement Fund	103,119
	$ 926,337

PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 consists of the following:

Land	$ 1,642,530
Building and improvements	11,977,660
Furniture and equipment	428,207
Software	20,284
	14,068,681
Less: accumulated depreciation	(4,397,959)
	$ 9,670,722

Depreciation expense for the year ended June 30, 2018 was $322,912.

LONG-TERM DEBT

The Foundation has a loan payable to a financial institution due in monthly installments of principal of $2,056 until maturity on August 1, 2020. A balloon payment is due when the term loan matures. Amounts outstanding under this note bear interest at a rate per annum equal to the daily LIBOR, plus 3% (5.09% at June 30, 2018). The loan agreement requires the Foundation to comply with nonfinancial covenants and is secured by the guarantees of non-related party individuals. The Foundation was in compliance with these covenants at June 30, 2018.

The balance of the long-term debt at June 30, 2018 was as follows:

Total debt	$ 487,299
Less: current portion	(24,672)
Long-term debt, net of current portion	$ 462,627

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries) (continued)

BONDS PAYABLE

On March 1, 2013, the Foundation 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 the Foundation and Partnership by the Philadelphia Authority for Industrial Development. The bonds are secured by the assets of the Foundation and Partnership. The bonds bear interest at 5.25% until March 15, 2023, at which time the interest rate increases to 6.125%. The bonds called for annual mandatory sinking fund redemptions on March 15 of each respective year.

The balance payable on the bonds was $7,945,000 at June 30, 2018. During the year ended June 30, 2018, $130,000 of the bonds were redeemed. The bonds require the foundation to comply with nonfinancial covenants. The Foundation was in compliance with these covenants at June 30, 2018.

The balance of bonds payable at June 30, 2018 was as follows:

Total bonds payable	$ 7,945,000
Less: current portion	(135,000)
Bonds payable, less current portion	7,810,000
Less: unamortized bond issuance costs	(334,432)
Bonds payable, net	$ 7,475,568

Future principal and interest payments of bonds payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 135,000	$ 479,981	$ 614,981
2020	145,000	472,894	617,894
2021	150,000	465,281	615,281
2022	160,000	457,406	617,406
2023	170,000	449,006	619,006
2024-2028	995,000	2,086,175	3,081,175
2029-2033	1,335,000	1,742,256	3,077,256
2034-2038	1,805,000	1,278,594	3,083,594
2039-2043	3,050,000	654,150	3,704,150
	$ 7,945,000	$ 8,085,743	$ 16,030,743

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries) (continued)

LINE OF CREDIT

The Foundation has a $300,000 line of credit, of which $300,000 was outstanding at June 30, 2018. Advances on the line of credit are payable on demand and carry an interest rate of 2.25% over the daily LIBOR (4.34% at June 30, 2018). The line of credit is secured by gross revenues and a mortgage on the property in parity with the Series 2013 bondholders (see *BONDS PAYABLE* note). The line of credit agreement requires the Foundation to comply with nonfinancial covenants. The Foundation was in compliance with these covenants at June 30, 2018. During June 2018, the lender extended the maturity date to August 1, 2019.

SUPPORT AND REVENUE

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

RENTAL OPERATIONS

The Partnership is a lessor of office space to the School and other unrelated entities. Commitments for future minimum rental income under noncancelable leases expiring through 2043 at June 30, 2018, are as follows:

Years ending June 30,	
2019	$ 881,488
2020	845,992
2021	792,748
2022	775,000
2023	775,000
Thereafter	15,274,000
	$ 19,344,288

RELATED PARTY TRANSACTIONS

The Foundation's goal is to financially support the School through fundraising and charitable gifts.

Facility Leasing Arrangement

The Foundation leases the majority of its rental facility to the School under a long-term operating lease, expiring March 15, 2043. Base rent under the lease and for the year ended June 30, 2018, was $775,000. The lease agreement includes a provision that minimum rentals may be increased

Note 15 – Component Unit (Designing Futures Foundation and Subsidiaries) (continued)

RELATED PARTY TRANSACTIONS (CONTINUED)

Facility Leasing Arrangement (continued)

as needed based on debt service requirements of the Foundation, which are typically in excess of the minimum rental amounts.

Approximate future minimum rentals are as follows:

Years ending June 30,	
2019	$ 775,000
2020	775,000
2021	775,000
2022	775,000
2023	775,000
Thereafter	15,274,000
	$ 19,149,000

Due to Related Party

Net amounts due to related party consists of amounts shared for general and administrative expenses paid on behalf of the Foundation by the School. Advances are non-interest bearing and have no stated repayment terms, but are expected to be repaid within one year. At June 30, 2018, amounts due from the Foundation to the School were $482,922.

CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash and cash equivalents at two financial institutions, which, at times, may exceed federally insured limits. Cash deposit accounts are guaranteed by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At June 30, 2018, the Foundation had no cash balances in excess of FDIC insured limits. Cash equivalent amounts, reported as escrow deposits, and invested in money market funds and government obligations are not insured nor guaranteed by the FDIC. The Foundation has not experienced any such loses in such accounts.

SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION

For the year ended June 30, 2018, cash paid for interest was $519,898.

Note 16 – Uncertainty Regarding Non-Renewal of Charter

The school operated under a charter that ended June 30, 2018 and has not been renewed as of the issuance date of these financial statements. The Charter was recently voted for non-renewal and the School intends to appeal the non-renewal. The School expects to continue operating during the appeal process. The potential outcome of this matter, including the future operations of the School, cannot presently be determined. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Note 17 – Subsequent Events

The School has evaluated subsequent events through December 19, 2018, the date these financial statements were available to be issued. Except as noted in Note 14, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

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, 2018

Revenues	Original Budget	Final Budget	Actual	Variance with Final Budget
Local educational agencies	$ 7,249,607	$ 7,249,607	$ 6,946,948	$ (302,659)
Federal funds	462,274	462,274	822,610	360,336
State funds	152,883	152,883	146,724	(6,159)
Other sources	150,000	150,000	301,506	151,506
Total revenues	8,014,764	8,014,764	8,217,788	203,024
Expenditures				
Instruction	4,381,313	4,466,313	3,830,987	(635,326)
Staff support services	447,612	362,612	472,908	110,296
Instructional support services	33,000	33,000	12,349	(20,651)
Administrative support services	1,069,182	1,069,182	1,271,898	202,716
Nursing services support	72,540	72,540	69,049	(3,491)
Business support services	154,440	154,440	97,212	(57,228)
Student activities	54,674	53,862	49,254	(4,608)
Non-instructional services	482,900	482,900	601,841	118,941
Community service	-0-	-0-	1,148	1,148
Facility services	1,216,479	1,216,479	1,171,842	(44,637)
Debt service	-0-	-0-	30,056	30,056
Capital outlays	-0-	-0-	111,452	111,452
Total expenditures	7,912,140	7,911,328	7,719,996	(191,332)
Net change in fund balance, before transfers	$ 102,624	$ 103,436	$ 497,792	$ 394,356

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2018
FOR THE LAST FOUR FISCAL YEARS

	2018	2017	2016	2015
Proportion of the net pension liability	0.0190%	0.0220%	0.0270%	0.0270%
Proportionate share of the net pension liability	$ 9,384,000	$ 10,903,000	$ 11,782,000	$ 11,637,000
Covered-employee payroll	$ 2,526,990	$ 2,844,983	$ 3,477,208	$ 3,746,666
Proportionate share of the net pension liability as a percentage of covered-employee payroll	371%	383%	414%	335%
Plan's fiduciary net position	$ 53,155,336,000	$ 49,832,060,000	$ 51,585,521,000	$ 52,980,115,000
Plan fiduciary net positon as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%

See auditor's report.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
AS OF JUNE 30, 2018
FOR THE LAST FOUR FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 727,000	$ 758,102	$ 700,241	$ 755,173
Contributions in relation to the contractually determined contribution	727,000	325,172	700,241	755,173
Contribution (excess) deficiency	$ -0-	$ 432,930	$ -0-	$ -0-
Covered-employee payroll	$ 2,526,990	$ 2,844,983	$ 3,477,208	$ 3,746,666
Contributions as a percentage of covered-employee payroll	28.77%	26.65%	20.14%	20.16%

See auditor's report.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
AS OF JUNE 30, 2018
FOR THE LAST TWO FISCAL YEARS

	2018	2017
Proportion of the net OPEB liability	0.0190%	0.0220%
Proportionate share of the net OPEB liability	$ 387,000	$ 474,000
Covered-employee payroll	$ 2,526,990	$ 2,844,983
Proportionate share of the net OPEB liability as a percentage of covered-employee payroll	15%	17%
Plan's fiduciary net position	$ 2,037,412,000	$ 2,153,989,000
Plan fiduciary net positon as a percentage of the total OPEB liability	5.73%	5.47%

See auditor's report.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
AS OF JUNE 30, 2018
FOR THE LAST TWO FISCAL YEARS

	2018	2017
Contractually required contribution	$ 21,000	$ 23,660
Contributions in relation to the contractually determined contribution	21,000	23,660
Contribution (excess) deficiency	$ -0-	$ -0-
Covered-employee payroll	$ 2,526,990	$ 2,844,983
Contributions as a percentage of covered-employee payroll	0.83%	0.83%

See auditor's report.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
FOR THE YEARS ENDED JUNE 30, 2015 THROUGH JUNE 30, 2018

Changes in Benefit Terms

With the passage of Act 5 class T-E & T-F, members are now permitted to elect a lump sum payment of member contributions upon retirement.

Changes in Assumptions Used in Measurement of the Total Pension Liability beginning June 30, 2017

None

Changes in Assumptions Used in Measurement of the Total Pension Liability beginning June 30, 2016

The investment rate of return was adjusted from 7.50% to 7.25%. The inflation assumption was decreased from 3.00% to 2.75%.

Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. 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 to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Method and Assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contribution calculated as of the June 30, 2016 actuarial valuation will be made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

- Investment return – 7.25%, includes inflation of 2.75% and the real rate of return of 4.50%
- Salary growth – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, real wage growth and merit or seniority of 2.25%
- Benefit payments – no postretirement benefit increases assumed in the future
- Morality rates were based on the RP-2014 Morality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Morality Improvement Scale.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
FOR THE YEARS ENDED JUNE 30, 2015 THROUGH JUNE 30, 2018

10-year Reporting Requirements

The preceding required supplementary schedules, as related to pensions, are intended to show information for 10 years. Additional years will be displayed as they become available.

The Accounting Valuation

The GASB 67 accounting valuation can be found on PSERS' website at www.psers.pa.gov.

Changes in Benefit Terms

None

Changes in Assumptions Used in Measurement of the Total Pension Liability beginning June 30, 2017

The Discount Rate increased from 2.71% to 3.13%.

Changes in Assumptions Used in Measurement of the Total Pension Liability beginning June 30, 2016

Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.00%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. 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 to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

Method and Assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contribution calculated as of the June 30, 2016 actuarial valuation will be made during the fiscal year ended June 30, 2018. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

- Investment return – 3.13% - 20 year S&P Municipal Bond Rate.
- Salary growth – Effective average of 5.00%, which reflects an allowance for inflation of 2.75%, real wage growth and merit or seniority of 2.25%
- Benefit payments – no postretirement benefit increases assumed in the future
- Morality rates were based on the RP-2014 Morality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Morality Improvement Scale.
- Assumed Healthcare cost trends were applied to retirees with less than $1,200 in premium assistance per year.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB
FOR THE YEARS ENDED JUNE 30, 2017 THROUGH JUNE 30, 2018

10-year Reporting Requirements

The preceding required supplementary schedules, as related to OPEB, are intended to show information for 10 years. Additional years will be displayed as they become available.

The Accounting Valuation

The GASB 74 accounting valuation can be found on PSERS' website at www.psers.pa.gov.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Period	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2017	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2018
U.S. Department of Education								
Pass-through programs from:								
Pennsylvania Department of Education								
Title I - Improving Basic Programs	84.010	013-160863	10/1/15 - 9/30/16	$ 67,707	$ 67,707	$ -0-	$ -0-	$ -0-
Title I - Improving Basic Programs	84.010	013-170863	10/1/16 - 9/30/17	411,525	68,645	342,880	342,880	-0-
Title I - Improving Basic Programs	84.010	013-180863	10/1/17 - 9/30/18	328,598	-0-	350,576	350,576	21,978
Title II - Improving Teacher Quality	84.367	020-170863	10/1/16 - 9/30/17	12,901	-0-	7,984	7,984	(4,917)
Title II - Improving Teacher Quality	84.367	020-180863	10/1/17 - 9/30/18	22,469	-0-	-0-	-0-	(22,469)
Title IV - Student Support and Academic Enrichment	84.424	144-180863	10/1/17 - 9/30/18	5,735	-0-	10,650	10,650	4,915
School District of Philadelphia								
IDEA Part B	84.027	N/A	7/1/17 - 6/30/18	110,520	-0-	110,520	110,520	-0-
Total U.S. Department of Education				959,455	136,352	822,610	822,610	(493)
Child Nutrition Cluster								
U.S. Department of Agriculture								
Pass-through programs from:								
Pennsylvania Department of Education								
School Breakfast Program	10.553	511	7/1/17 - 6/30/18	20,771	909	24,758	24,758	4,896
National School Lunch Program	10.555	510	7/1/17 - 6/30/18	120,386	3,717	133,202	133,202	16,533
National School Lunch Program - Commodities	10.555	510	7/1/17 - 6/30/18	13,873	-0-	13,873	13,873	-0-
Total U.S. Department of Agriculture				155,030	4,626	171,833	171,833	21,429
Total Child Nutrition Cluster				155,030	4,626	171,833	171,833	21,429
Total Expenditures of Federal Awards				$ 1,114,485	$ 140,978	$ 994,443	$ 994,443	$ 20,936

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, 2018

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the balance sheet, revenues, expenditures, or changes in fund balances of governmental funds. The financial activity for the aforementioned awards is reported in the School's statement of revenues, expenditures, and changes in fund balances of governmental funds.

Note B – Summary of Significant Accounting Policies

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. The School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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 Directors
Charter High School for Architecture and Design
Philadelphia, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component unit, and each major fund of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN** (a nonprofit organization), as of and for the year ended June 30, 2018, 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 December 19, 2018. The financial statements of Designing Futures Foundation and Subsidiaries 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 Subsidiaries.

Internal Control over Financial Reporting

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

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.

Haefele, Flanagan & Co., p.c.

Maple Shade, New Jersey
December 19, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN**'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN**'s major federal programs for the year ended June 30, 2018. **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN**'s major federal programs are 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN**'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Haefele, Flanagan & Co., p.c.

Maple Shade, New Jersey
December 19, 2018

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

A. SUMMARY OF AUDITORS' RESULTS

1. The Auditors' Report expresses an unmodified opinion on whether the financial statements of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN** were prepared in accordance with accounting principles generally accepted in the United States of America.

2. No material weaknesses in internal control were disclosed during the audit of the financial statements.

3. No instances of noncompliance, material to the financial statements of **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN**, which would be required to be reported in accordance with *Government Auditing* Standards, were disclosed during the audit.

4. No material weaknesses in internal control over major federal programs were disclosed during the audit.

5. The Auditors' Report issued on compliance for the major federal programs for **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN** expresses an unmodified opinion.

6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.

7. The program tested as a major program was:

   - Title I – Improving Basic Programs #84.010

8. The threshold for distinguishing Types A and B programs was $750,000.

9. **CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN** was determined not to be a low risk auditee.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
JUNE 30, 2018

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018

<u>Finding – Financial Statement Audit</u>

Finding No. 2017-01: During compliance testing of employee files, it was noted that five of the 10 tested employee personnel files did not contain the appropriate federal criminal background checks.

Status: During the year ended June 30, 2018, School management reviewed all employee files to ensure that the files were complete and contained the proper background checks. The School also implemented procedures to ensure that these background checks are obtained upon the hiring of new personnel. No issues were noted with employee file testing and compliance during the June 30, 2018 audit. This finding is closed.

Finding No. 2017-02: A significant deficiency in internal control over financial reporting existed in the enrollment billing process. During the year ended June 30, 2017 financial statement audit, it was determined that the enrollment report used to invoice the School District of Philadelphia contained several billing errors. It was concluded that adequate controls were not in place to ensure that student information is properly reported in the enrollment report.

Status: During the year ended June 30, 2018, School management implemented procedures to ensure complete accuracy in reporting student enrollment data. The CEO and Director of Individualized Student Services provide oversight of all pupil data reporting, in verifying both regular and special education information. Additionally, the School compares its internal data on a monthly basis with the Enrollment Calculation Report extracted directly from the School District of Philadelphia Charter School Payment Module. No issues were noted with the student enrollment reports during the June 30, 2018 audit. This finding is closed.