CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
FOR THE YEAR ENDED JUNE 30, 2016

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CITRINCOOPERMAN®
Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Charter High School for Architecture and Design (a nonprofit organization) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Charter High School for Architecture and Design's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Designing Futures Foundation and 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Charter High School for Architecture and Design as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3 - 7 and 41 - 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016, on our consideration of Charter High School for Architecture and Design's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charter High School for Architecture and Design's internal control over financial reporting and compliance.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
December 21, 2016

The Board of Trustees of Charter High School of Architecture and Design (the "School") offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented herein in conjunction with the School's financial statements.

Financial Highlights

- Total governmental revenues for the fiscal year ended June 30, 2016, were $6,479,932, representing a decrease of $1,147,848 from June 30, 2015.
- At June 30, 2016, the School reported an ending governmental fund balance of $688,671, representing a decrease of $938,239 from June 30, 2015.
- The School's cash balance at June 30, 2016, was $551,763, representing a decrease of $692,573 from June 30, 2015.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the School's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. expenditures accrued in one year but paid in subsequent years, and depreciation).

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

Fund Financial Statements

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

Overview of the Financial Statements (Continued)

Notes to the Financial Statements

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

Supplementary Information

The governmental fund budgetary comparison schedule, the schedule of the School's proportionate share of the net pension liability and schedule of School contributions are required supplementary information presented for purposes of additional analysis and are prepared using a basis consistent with accounting principles generally accepted in the United States of America ("GAAP") for state reporting requirements.

Government-Wide Financial Analysis

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

	June 30, 2016	June 30, 2015
Current and other assets	$ 1,887,608	$ 2,555,521
Noncurrent assets	215,499	289,806
Total assets	2,103,107	2,845,327
Deferred outflows of resources	1,190,115	1,492,995
Current liabilities	1,099,890	891,766
Long-term liabilities	11,821,158	11,700,031
Total liabilities	12,921,048	12,591,797
Deferred inflows of resources	820,005	832,000
Net position:		
Net investment in capital assets	152,468	205,589
Unrestricted	(10,600,299)	(9,291,064)
Total net position	$ (10,447,831)	$ (9,085,475)

Overview of the Financial Statements (Continued)

Government-Wide Financial Analysis (Continued)

As noted earlier, net position may serve over time as a useful indicator of a school's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $10,447,831 as of June 30, 2016.

The School's revenues are predominately received from the School District of Philadelphia based on student enrollment. For the year ended June 30, 2016, the School's expenses of $8,009,215 exceeded its revenues of $6,646,859 by $1,362,356.

	2016	2015
Revenues:		
Local educational agencies	$ 5,692,050	$ 6,674,076
Other sources	63,176	163,354
Food services	166,927	207,111
State sources	150,275	160,455
Federal sources	574,431	629,895
Total revenues	6,646,859	7,834,891
Expenditures:		
Other instructional programs	3,740,845	4,267,172
Pupil personnel services	441,843	457,116
Instructional staff services	112,661	141,269
Administrative services	1,345,184	1,307,208
Pupil health	68,812	60,976
Business services	149,656	138,877
Operation and maintenance of plant services	1,588,535	1,487,563
Other support services	253,892	345,277
Food services	213,165	224,359
Student activities	11,446	66,650
Interest expense	8,870	11,255
Depreciation expense	74,306	78,043
Total expenditures	8,009,215	8,585,765
Change in net position	(1,362,356)	(750,874)
Net position - beginning, as previously reported	(9,085,475)	1,905,883
Adjustment to beginning net position	-	(10,240,484)
Net position - beginning	(9,085,475)	(8,334,601)
NET POSITION - ENDING	$ (10,447,831)	$ (9,085,475)

Overview of the Financial Statements (Continued)

Governmental Fund

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

The general fund is the chief operating fund of the School. At the end of the current year, the unassigned and total fund balance of the general fund was $688,671.

General Fund Budgetary Highlights

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

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the School's investment in capital assets for its governmental activities and business-type activity totaled $152,468 (net of accumulated depreciation and related debt). This investment in capital assets includes furniture and fixtures, machinery, and equipment for the School along with leasehold improvements.

Long-Term Debt

At June 30, 2016, the School had a capital lease payable of $63,031.

Economic Factors and Next Year's Budgets and Rates

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

Future Events That Will Financially Impact the School

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

Contacting the School's Financial Management

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

Component Unit

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

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activity	Total	Component Unit
ASSETS				
Cash and cash equivalents	$ 551,763	$ -	$ 551,763	$ 341,823
Restricted cash	-	-	-	863,401
State subsidies receivable	161,054	2,617	163,671	-
Federal subsidies receivable	67,707	60,984	128,691	-
Contributions receivable	-	-	-	125,000
Other receivables	191,794	-	191,794	180,136
Prepaid expenses	35,422	24,479	59,901	19,433
Due from other funds	327,842	-	327,842	-
Due from related party	463,946	-	463,946	-
Capital assets:				
Nondepreciable capital assets	-	-	-	1,642,530
Building and improvements	-	-	-	11,683,278
Leasehold improvements	911,660	-	911,660	-
Furniture and fixtures	646,362	61,257	707,619	393,038
Machinery and equipment	18,076	-	18,076	-
Software	-	-	-	20,284
Less: accumulated depreciation	(1,363,187)	(58,669)	(1,421,856)	(3,144,633)
Other assets:				
Intangible assets, net	-	-	-	361,457
Total assets	2,012,439	90,668	2,103,107	12,485,747
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	1,190,115	-	1,190,115	-

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2016

	Governmental Activities	Business-Type Activity	Total	Component Unit
LIABILITIES				
Accounts payable	306,734	29,587	336,321	286,779
Line of credit	-	-	-	300,000
Salaries and benefits payable	329,052	-	329,052	-
Due to related party	-	-	-	463,946
Advances from grantors	26,055	-	26,055	-
Due to other funds	3,165	327,842	331,007	-
Other current liabilities	53,582	-	53,582	-
Long-term obligations:				
Due within one year:				
Capital lease payable	23,873	-	23,873	-
Bonds payable and long-term debt	-	-	-	149,672
Due beyond one year:				
Bonds payable	-	-	-	8,075,000
Capital lease payable	39,158	-	39,158	-
Long-term debt	-	-	-	511,976
Pension liability	11,782,000	-	11,782,000	-
Total liabilities	12,563,619	357,429	12,921,048	9,787,373
Commitments and contingencies (Notes 6, 7, 8, 9, 10, 11, 12, 13 and 14)				
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	820,005	-	820,005	-
NET POSITION				
Net investment in capital assets	149,880	2,588	152,468	-
Temporarily restricted net assets	-	-	-	237,890
Unrestricted	(10,330,950)	(269,349)	(10,600,299)	2,460,484
Total net position	$ (10,181,070)	$ (266,761)	$ (10,447,831)	$ 2,698,374

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions	Expenses	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Business-Type Activity	Total	Component Unit
Primary government						
Governmental activities:						
Other instructional programs	$ 3,740,845	$ 2,408,762	$ (1,332,083)	$ -	$ (1,332,083)	$ -
Pupil personnel services	441,843	-	(441,843)	-	(441,843)	-
Instructional staff services	112,661	-	(112,661)	-	(112,661)	-
Administrative services	1,345,184	-	(1,345,184)	-	(1,345,184)	-
Pupil health	68,812	7,004	(61,808)	-	(61,808)	-
Business services	149,656	-	(149,656)	-	(149,656)	-
Operation and maintenance of plant services	1,588,535	94,992	(1,493,543)	-	(1,493,543)	-
Other support services	253,892	-	(253,892)	-	(253,892)	-
Food services	-	-	-	(213,165)	(213,165)	-
Student activities	11,446	-	(11,446)	-	(11,446)	-
Interest expense	8,870	-	(8,870)	-	(8,870)	-
Depreciation expense (Note 5)	65,617	-	(65,617)	(8,689)	(74,306)	-
Total governmental activities	$ 7,787,361	$ 2,510,758	(5,276,603)	(221,854)	(5,498,457)	-
Component unit:						
Designing Futures Foundation and Subsidiaries	$ -	$ -	-	-	-	(1,826,055)
General revenues:						
Local educational agencies			3,905,998	-	3,905,998	-
Food services			-	166,927	166,927	-
Rental income			-	-	-	1,502,277
Other revenue			63,176	-	63,176	378,981
Total general revenues			3,969,174	166,927	4,136,101	1,881,258
Change in net position			(1,307,429)	(54,927)	(1,362,356)	55,203
Net position - beginning			(8,873,641)	(211,834)	(9,085,475)	2,643,171
NET POSITION - ENDING			$ (10,181,070)	$ (266,761)	$ (10,447,831)	$ 2,698,374

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2016

	General Fund
ASSETS	
Cash and cash equivalents	$ 551,763
State subsidies receivable	161,054
Federal subsidies receivable	67,707
Other receivables	191,794
Prepaid expenses	35,422
Due from other funds	327,842
Due from related party	463,946
TOTAL ASSETS	$ 1,799,528
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable and accrued expenses	$ 306,734
Salaries and benefits payable	721,321
Other current liabilities	53,582
Advances from grantors	26,055
Due to other funds	3,165
Total liabilities	1,110,857
Fund balance	
Unassigned	688,671
TOTAL LIABILITIES AND FUND BALANCE	$ 1,799,528

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balance for the governmental fund		$ 688,671
Total net position reported for governmental activities in the statement of net position is different because:		
Long-term liabilities that pertain to the governmental fund, including capitalized lease obligations and net pension obligations, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Those liabilities consist of:		
Capital lease obligations	(63,031)	
Net pension liability, net of required contractual liability	(11,389,731)	
		(11,452,762)
Capital assets used in the governmental fund are not financial resources and therefore are not reported in the fund. Those assets consist of:		
Leasehold improvements	911,660	
Furniture and fixtures	646,362	
Machinery and equipment	18,076	
Less: accumulated depreciation	(1,363,187)	
		212,911
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental fund. Balances at year end are:		
Deferred outflows of resources related to pensions	1,190,115	
Deferred inflows of resources related to pensions	(820,005)	
		370,110
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (10,181,070)

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund
Revenues:	
Local educational agencies	$ 5,692,050
Other sources	63,176
State sources	150,275
Federal sources	574,431
Total revenues	6,479,932
Expenditures:	
Instruction	3,528,591
Support services	3,848,887
Non-instructional services	10,637
Debt service	30,056
Total expenditures	7,418,171
Net change in fund balance	(938,239)
Fund balance - beginning	1,626,910
FUND BALANCE - ENDING	$ 688,671

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balance - total governmental fund		$ (938,239)
Amounts reported for governmental activities in the statement of activities are different because:		
The governmental fund reports capital lease proceeds as financing sources, while repayment of capital lease principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities, and repayment of principal reduces the liability. The net effect of these differences in the treatment of capital lease payable is as follows:		
Repayment of capital lease obligations		21,186
The governmental fund reports capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense, as follows:		
Depreciation expense	(65,617)	
		(65,617)
The governmental fund reports pension contributions as expenditures. However, in the statement of activities, the cost incurred for future pension benefits is reported as pension expense, as follows:		
School pension contributions	(1,025,000)	
Cost of benefits earned net of employee contributions	700,241	
		(324,759)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (1,307,429)

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016

	Enterprise Fund
	Food Service Fund
ASSETS	
Current assets:	
Federal subsidies receivable	$ 60,984
State subsidies receivable	2,617
Prepaid expenses	24,479
Total current assets	88,080
Noncurrent assets:	
Capital assets:	
Furniture and fixtures	61,257
Less: accumulated depreciation	(58,669)
Capital assets, net	2,588
Total assets	90,668
LIABILITIES	
Current liabilities:	
Accounts payable	29,587
Due to general fund	327,842
Total liabilities	357,429
NET POSITION	
Net investment in capital assets	2,588
Unrestricted	(269,349)
Total net position	$ (266,761)

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF ACTIVITIES
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Fund
	Food Service Fund
Operating revenues:	
Food service revenues	$ 24,399
Operating expenses:	
Salaries and benefits	861
Food and supplies	204,379
Administrative fees	7,925
Depreciation	8,689
Total operating expenses	221,854
Operating loss	(197,455)
Nonoperating revenues:	
Federal sources	126,470
State sources	16,058
Total nonoperating revenues	142,528
Change in net position	(54,927)
Net position - beginning	(211,834)
NET POSITION - ENDING	$ (266,761)

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Fund
	Food Service Fund
Cash flows from operating activities:	
Cash received from students	$ 24,399
Payments to suppliers	(214,053)
Payments to employees	(861)
Net cash used in operating activities	(190,515)
Cash flows from noncapital financing activities:	
Cash received from federal sources	102,271
Cash received from state sources	4,071
Due to the general fund	84,173
Cash flows provided by noncapital financing activities	190,515
Net change in cash	-
Cash - beginning	-
CASH - ENDING	$ -

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (197,455)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	8,689
Changes in operating assets and liabilities:	
Accounts payable	(1,749)
NET CASH USED IN OPERATING ACTIVITIES	$ (190,515)

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Student Activities Fund
ASSETS	
Cash	$ 19,964
LIABILITIES	
Due to student groups	19,964
NET POSITION	
Unrestricted	$ -

See accompanying notes to financial statements.

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background
Charter High School of Architecture and Design (the "School") is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997 (the "Act") and is operating under a charter school contract through 2018, which can be renewed for additional terms through an application process. The School is located in Philadelphia, Pennsylvania. During the 2015-2016 school year, the School served children in grades 9 through 12.

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

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

Component Unit
Designing Futures Foundation ("DFF") and Subsidiaries (collectively the "Organization") is a legally separate, tax-exempt component unit of the School. The Organization was organized to acquire and support the School's facilities. Although the School does not control the timing or amounts of receipts from the Organization, the majority of resources, and income thereon, that the Organization holds are restricted to the activities of the School. The Organization and the School make and receive advances in the normal course of operations, which are non-interest bearing.

Because these restricted resources held by the Organization can only be used by, or for the benefit of, the School, the Organization is considered a component unit of the School and is discretely presented in the School's financial statements.

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

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

Basis of Presentation (Continued)
The School adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies the hierarchy of generally accepted accounting principle in the context of the current governmental financial reporting environment. Statement No. 76 does not have any impact on the School's financial statements.

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

The School reports the following major governmental fund:

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

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

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

Fund financial statements (continued)
The School reports the following proprietary fund:

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

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

The School reports the following fiduciary fund:

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

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

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related proceeds at year end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

- Restricted - This component of net position consists of constraints placed on the use of net assets through external constraints imposed by creditors such as through debt covenants, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or by enabling legislation.

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

Net Position (Continued)

- Unrestricted - This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance Classification Policies and Procedures
The School follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the classification of the School's fund balance into five components: nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

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

Budgets and Budgetary Accounting
The School adopts an annual budget on a basis consistent with GAAP for the general fund. The School is required to present the adopted and final budgeted revenues and expenditures for the general fund that were filed and accepted by the Labor, Education and Community Services Comptroller's Office. The general fund budget appears on page 41.

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

Cash and Cash Equivalents
The School's cash consists of cash on hand and demand deposits. The School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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

Prepaid Expenses

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

Receivables

Receivables primarily consist of amounts due from federal, state and local authorities. Receivables are stated at the amount management expects to collect. As of June 30, 2016, based on historical experience, no allowance has been established.

Capital Assets

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

Deferred Outflows/Inflows of Resources

Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. In compliance with Statement No. 63, the statement of net position includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Advertising Costs

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

Income Tax Status

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

Uncertain Tax Positions

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

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

Uncertain Tax Positions (Continued)
As of June 30, 2016, the School had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the School had no interest or penalties related to income taxes.

The School files an income tax return in the U.S. federal jurisdiction. With few exceptions, the School is no longer subject to U.S. federal tax examinations by taxing authorities for years before June 30, 2013.

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

Pending Changes in Accounting Principles
In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions of Statement No. 80 are effective for the School's June 30, 2017 financial statements. The effect of implementation has not yet been determined.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of Statement No. 82 are effective for the School's June 30, 2017 financial statements. The effect of implementation has not yet been determined.

Subsequent Events
The School has evaluated material subsequent events through December 21, 2016, the date on which these financial statements were available to be issued. Except as disclosed Note 14, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 2. CASH AND CASH EQUIVALENTS

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

As of June 30, 2016, the custodial risk is as follows:

	Governmental Activities	Business-Type Activity
Uninsured and uncollateralized	$ -	$ -
Collateralized	-	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	323,500	-
Total	$ 323,500	$ -

Reconciliation to the financial statements:

	Governmental Activities	Business-Type Activity
Cash exposed to custodial risk	$ 323,500	$ -
Plus: insured amount	250,000	-
Less: outstanding checks	(21,737)	-
	$ 551,763	$ -

NOTE 3. RECEIVABLES

Receivables at June 30, 2016, consisted of amounts due from federal, state, and local authorities. All receivables are considered collectible due to the stable condition of the federal, state and local programs.

A summary of receivables follows:

Receivables	Governmental Activities	Business-Type Activity
Federal	$ 67,707	$ 60,984
State	161,054	2,617
Local	191,794	-
	$ 420,555	$ 63,601

NOTE 4. LOCAL EDUCATIONAL AGENCY ASSISTANCE (REVENUE)

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

For each non-special education student enrolled, charter schools receives no less than the budgeted total expenditure per average daily membership of the prior school year as defined by the Act. For the year ended June 30, 2016, the rate was $7,738 per year per student for most of the students, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. Total revenue from student enrollment was $5,692,050 for the year ended June 30, 2016.

NOTE 5. CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2016, was as follows:

Governmental Activities:

	Balance - July 1, 2015	Additions	Disposals	Balance - June 30, 2016
Leasehold improvements	$ 911,660	$ -	$ -	$ 911,660
Furniture and fixtures	646,362	-	-	646,362
Machinery and equipment	18,076	-	-	18,076
Less: accumulated depreciation	(1,297,570)	(65,617)	-	(1,363,187)
Capital assets, net	$ 278,528	$ (65,617)	$ -	$ 212,911

Depreciation expense for the year ended June 30, 2016, was $65,617.

Business-Type Activity:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Furniture and fixtures	$ 61,257	$ -	$ -	$ 61,257
Less: accumulated depreciation	(49,979)	(8,690)	-	(58,669)
Capital assets, net	$ 11,278	$ (8,690)	$ -	$ 2,588

Depreciation expense for the year ended June 30, 2016, was $8,690.

NOTE 6. OBLIGATIONS UNDER CAPITAL LEASE

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

NOTE 6. OBLIGATIONS UNDER CAPITAL LEASE (CONTINUED)

Year ending June 30:	
2017	$ 30,056
2018	30,056
2019	12,589
Total minimum lease payments	72,701
Less: amount representing interest	(9,670)
Present value of minimum lease payments	63,031
Less: current portion of capital lease obligations	(23,873)
Long-term portion of capital lease obligations	$ 39,158

Changes in capital lease obligations were as follows for the year ended June 30, 2016:

Balance, July 1, 2015	$ 84,217
Repayments of principal	(21,186)
Balance, June 30, 2016	$ 63,031

Interest expense on the capital lease was $8,870 for the year ended June 30, 2016.

NOTE 7. RELATED-PARTY TRANSACTIONS

Facility Leasing Arrangement

The School has an operating lease for the rental of its facilities with the Organization, which acquired the building during 2005. The lease expires on March 15, 2043, as described in the "Amended and Restated Lease" dated March 1, 2013. Monthly payments on the leases are approximately $65,000 through the end of the lease term.

During the year ended June 30, 2016, rent expense under the leases was $780,000.

Minimum future lease payments under operating leases as of June 30, 2016, are as follows:

Year ending June 30:	Amount
2017	$ 775,000
2018	775,000
2019	775,000
2020	775,000
2021	775,000
2022-2026	3,875,000
2027-2031	3,875,000
2032-2036	3,875,000
2037-2041	3,875,000
2042-2043	1,324,000
	$ 20,699,000

NOTE 7. RELATED-PARTY TRANSACTIONS (CONTINUED)

Facility Leasing Arrangement (Continued)
As described in Note 14, the School entered into the Amended and Restated Lease as a means to transfer funds sufficient to service the Organization's debt obligation. The Organization's bond agreement incorporates by reference the financial covenants applicable to the School in the Amended and Restated Lease agreement. Certain financial covenants applicable to the School were not met as of June 30, 2016, however debt is presented as long-term because the School has taken certain remedial actions to nullify the event of default in accordance with Section 19 of the Lease Agreement.

Related-Party Receivable
The School has advanced $463,946 to the Organization as of June 30, 2016. The advances, which are noninterest-bearing, do not have stated repayment terms but are expected to be repaid within one year.

NOTE 8. RETIREMENT PLAN

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

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

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

NOTE 8. RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)
membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

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

Member contributions are as follows:

- Active members who joined the PSERS prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

- Members who joined the PSERS prior to, on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

- Members who joined the PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.50% (Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

- Members who joined the PSERS after June 30, 2011, automatically contribute at the Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 that, in future fiscal years, could cause the Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

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

NOTE 8. RETIREMENT PLAN (CONTINUED)

Contributions (Continued)

The School's contractually required contribution rate for fiscal year ended June 30, 2016, was 25.84% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The School's contributions to the PSERS for the years ended June 30, 2016, 2015 and 2014, amounted to $700,241, $755,173 and $707,780, respectively.

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

At June 30, 2016, the School reported a liability of $11,782,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the School's proportion was 0.0272%, which was a decrease of 0.0022% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized pension expense of $1,025,000. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (49,000)
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	(24,000)
Changes in proportions	601,000	(746,000)
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	589,115	(1,005)
	$ 1,190,115	$ (820,005)

$589,115 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ending June 30:		
2017	$	(62,000)
2018		(62,000)
2019		(62,000)
2020		(32,000)
	$	(218,000)

Actuarial assumptions

The total pension liability as of June 30, 2015, was determined by rolling forward the PSERS's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS's Board of Trustees at its March 11, 2011 board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

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

Actuarial assumptions (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	22.5 %	4.8 %
Private markets (equity)	15 %	6.6 %
Private real estate	12 %	4.5 %
Global fixed income	7.5 %	2.4 %
U.S. long treasuries	3 %	1.4 %
Treasury inflation-protected securities	12 %	1.1 %
High yield bonds	6 %	3.3 %
Cash	3 %	0.7 %
Absolute return	10 %	4.9 %
Risk parity	10 %	3.7 %
Master limited partnerships/Infrastructure	5 %	5.2 %
Commodities	8 %	3.1 %
Financing (LIBOR)	(14)%	1.1 %
	100 %	

The above was the PSERS's Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

Discount rate

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
The School's proportionate share of the net pension liability	$ 14,522,000	$ 11,782,000	$ 9,478,000

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

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

NOTE 10. COMMITMENTS

The School is a co-borrower with the Organization on a joint and several basis on certain debt. The total amount of the loan proceeds has been allocated to the Organization. The terms of the loans are described in Note 14. The School does not have the expectation of having to make payments on the amounts allocated to the Organization.

NOTE 11. GRANT CONTINGENCIES

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

NOTE 12. LITIGATION

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

NOTE 13. EMPLOYEE BENEFIT PLAN

The School maintains a savings incentive plan 403(b) for its employees. All employees are eligible. Participants may elect voluntary salary deferrals under the plan up to the maximum permitted by law. The School makes a contribution for certain employees enrolled into the plan at a rate of 5% of their eligible salaries. Contribution expense for the plan amounted to $29,730 for the year ended June 30, 2016.

NOTE 14. COMPONENT UNIT

Nature of operations
DFF is organized as a nonprofit corporation in Pennsylvania under the provisions of Section 501(c)(3) of the IRC.

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

NOTE 14. COMPONENT UNIT (CONTINUED)

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

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

Collectively the Partnership and the Corporation are referred to as the "Subsidiaries".

Principles of consolidation
The consolidated financial statements of DFF and Subsidiaries (the "Organization") were prepared in conformity with GAAP and include the assets, liabilities, revenues and expenses of all majority-owned entities over which the Organization exercises control. All intercompany transactions and balances have been eliminated.

Basis of presentation
The financial statement presentation follows the recommendation of Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2016, the Organization's net assets were unrestricted and temporarily restricted.

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

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

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

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

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

NOTE 14. COMPONENT UNIT (CONTINUED)

Uncertain tax positions (continued)
As of June 30, 2016, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. Additionally, the Organization had no interest or penalties related to income taxes.

The Organization files an income tax return in the U.S. federal jurisdiction. With few exceptions, the Organization is no longer subject to U.S. federal tax examinations by taxing authorities for years before June 30, 2013.

Accounts receivable
Accounts receivable are stated at the amount the Organization expects to collect. The Organization maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectibility of specific customer accounts: customer creditworthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial conditions of the Organization's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Organization provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Organization has made reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. At June 30, 2016, the Organization considered all accounts receivable collectible; accordingly, no allowance for doubtful accounts has been established.

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

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

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

Bond issuance costs
Costs relating to the issuance of bonds are amortized over the term of the bonds using the straight-line method and are included in "Deferred charges" in the statement of financial position. Amortization of bond issuance costs for the year ended June 30, 2016, was $13,512.

Real estate commissions
Real estate commissions incurred by the Organization in association with the acquisition of a rental lease, discussed below, are amortized using the straight-line method over the term of the lease. Amortization of real estate commissions for the year ended June 30, 2016, was $10,236.

NOTE 14. COMPONENT UNIT (CONTINUED)

Net assets

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

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

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

Contributions

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

Fundraising

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

Advertising costs

Advertising costs are expensed as incurred and aggregated $20,000 for the year ended June 30, 2016.

Concentration of credit risk

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

Three tenants account for approximately 93% of the Organization's total rental income for the year ended June 30, 2016. During September 2016, one these tenants, with a lease term expiring on June 16, 2021, filed for bankruptcy under Chapter 7 of the United States Bankruptcy Code and vacated the premises. Management of the Organization does not expect to collect any rentals from this tenant subsequent to September 2016, and minimum rentals under the original lease term expiring June 16, 2021 are not included in the future minimum rental income disclosure.

NOTE 14. COMPONENT UNIT (CONTINUED)

Capital assets
As of June 30, 2016, capital assets consisted of the following:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Non-depreciable assets:				
Land	$ 1,642,530	$ -	$ -	$ 1,642,530
Depreciable assets:				
Buildings and improvements	$ 11,716,280	$ -	$ (33,002)	$ 11,683,278
Furniture and equipment	393,038	-	-	393,038
Software	20,284	-	-	20,284
Total depreciable assets	12,129,602	-	(33,002)	12,096,600
Less: accumulated depreciation	(2,817,929)	(326,704)	-	(3,144,633)
Depreciable assets, net	$ 9,311,673	$ (326,704)	$ (33,002)	$ 8,951,967

Depreciation expense for the year ended June 30, 2016, was $326,704.

Rental operations
The Partnership is a lessor of office space. Commitments for future minimum rental income under noncancelable leases and subleases expiring through 2043 at June 30, 2016, are as follows:

Year ending December 31:	Amount
2017	$ 944,314
2018	880,444
2019	881,488
2020	845,992
2021	792,748
Thereafter	16,823,958
	$ 21,168,944

Long-term debt
Long-term debt of the Organization as of June 30, 2016, its latest reporting period, consisted of the following:

On February 3, 2011, the Foundation, Partnership, and School, as co-borrowers, entered into a term note on a joint and several basis with the PNC Bank, N.A. (the "Bank") in the amount of $650,000. The term note was payable in monthly installments of principal and interest, beginning on March 1, 2011, in the amount of approximately $11,800. The balance was fully paid on the maturity date of February 2, 2016.

NOTE 14. COMPONENT UNIT (CONTINUED)

Long-term debt (continued)

On March 20, 2014, a line of credit was converted into a term loan with monthly payments of principal of $2,056 per month for the 48 months until maturity on March 20, 2018. A balloon payment is due when the term loan matures. Amounts outstanding under this note bear interest at a rate per annum equal to the daily LIBOR, adjusted monthly, plus 3%. The effective rate was 3.47% at June 30, 2016. At June 30, 2016, the balance outstanding on the term loan was $536,648. Interest incurred on the term loan amounted to $19,130 for the year ended June 30, 2016. The term loan agreement requires DFF to comply with nonfinancial covenants.

Future maturities of long-term debt are as follows:

Year ending December 31:	Amount
2017	$ 24,672
2018	511,976
	$ 536,648

Bonds payable

On March 1, 2013, DFF and the Partnership borrowed $8,540,000 of Series 2013 bonds for the refinance of existing indebtedness and improvements to their facilities. The loan is payable in annual payments of principal and interest, which correspond to the repayment or redemption of the bonds that were issued on behalf of DFF and the Partnership by the Philadelphia Authority for Industrial Development. The bonds are secured by the assets of DFF and the Partnership. The bonds bear interest at 5.25% until March 15, 2023, at which time the interest rate increases to 6.125%. The bonds call for annual mandatory sinking fund redemptions beginning March 15, 2014. The balance payable on the bonds was $8,200,000 at June 30, 2016. During the year ended June 30, 2016, $115,000 of the bonds were redeemed. The bonds require DFF to comply with nonfinancial covenants.

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

Year Ending June 30:	Principal	Interest	Total
2017	$ 125,000	$ 493,369	$ 618,369
2018	130,000	486,806	616,806
2019	135,000	479,981	614,981
2020	145,000	472,894	617,894
2021	150,000	465,281	615,281
2022-2026	890,000	2,193,887	3,083,887
2027-2031	1,185,000	1,892,013	3,077,013
2032-2036	1,605,000	1,481,026	3,086,026
2037-2041	2,155,000	926,407	3,081,407
2042-2043	1,680,000	174,255	1,854,255
	$ 8,200,000	$ 9,065,919	$ 17,265,919

NOTE 14. COMPONENT UNIT (CONTINUED)

Bonds payable and restricted cash and cash equivalents (continued)
The principal requirements of funding the mandatory sinking fund are as follows:

Year ending June 30:		
2017	$	125,000
2018		130,000
2019		135,000
2020		145,000
2021		150,000
2022-2026		890,000
2027-2031		1,185,000
2032-2036		1,605,000
2037-2041		2,155,000
2042-2043		1,680,000
	$	8,200,000

Line of credit
DFF maintains a line of credit with a commercial bank with a borrowing limit of $300,000 that expires on March 20, 2017. Advances under the $300,000 line of credit will be used for working capital or other general business purposes of the borrower. Amounts outstanding under this note bear interest at a rate per annum equal to the daily LIBOR, adjusted monthly, plus 2.25%. The effective rate was 2.43% at June 30, 2016. Collateral is a pledge of gross revenues and a mortgage on the School property on parity with the Series 2013 bondholders. At June 30, 2016, the balance outstanding on the line of credit was $300,000. Interest incurred on the line of credit amounted to $4,232 for the year ended June 30, 2016. The line of credit agreement requires DFF to comply with nonfinancial covenants.

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

The Organization has received contributions of cash and pledges from various sources which contain donor-imposed restrictions. During 2016, those contributions amounted to $105,000 and are included as temporarily restricted net assets in the consolidated financial statements.

NOTE 14. COMPONENT UNIT (CONTINUED)

Related-party transactions

The Partnership leases a portion of its rental facility to the School under a long-term operating lease ending March 15, 2043, with monthly rental payments of $64,583. Rent under the lease for the year ended June 30, 2016, was approximately $775,000.

Minimum future rental income receivable as of June 30, 2016, is as follows:

Year ending June 30:	Amount
2017	$ 775,000
2018	775,000
2019	775,000
2020	775,000
2021	775,000
Thereafter	16,824,000
	$ 20,699,000

The Organization and School make and receive advances in the normal course of operations. The Organization owes the School $463,946 as of June 30, 2016. The advances, which are noninterest-bearing, do not have stated repayment terms but are expected to be repaid within one year.

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
Revenues:				
Local educational agencies	$ 7,152,133	$ 7,152,133	$ 5,692,050	$ (1,460,083)
Other sources	502,094	502,094	63,176	(438,918)
State sources	81,404	81,404	150,275	68,871
Federal sources	417,785	417,785	574,431	156,646
Total revenues	8,153,416	8,153,416	6,479,932	(1,673,484)
Expenditures:				
Instruction	4,081,121	4,081,121	3,528,591	(552,530)
Support services	3,925,025	3,925,025	3,848,887	(76,138)
Non-instructional services	51,737	51,737	10,637	(41,100)
Debt service	-	-	30,056	30,056
Total expenditures	8,057,883	8,057,883	7,418,171	(639,712)
Net change in fund balance	95,533	95,533	(938,239)	(1,033,772)
Fund balance - beginning	1,626,910	1,626,910	1,626,910	-
FUND BALANCE - ENDING	$ 1,722,443	$ 1,722,443	$ 688,671	$ (1,033,772)

See independent auditor's report.

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

	June 30, 2016	June 30, 2015	June 30, 2014
School's proportion of the net pension liability	0.0272 %	0.0270 %	0.0270 %
School's proportionate share of the net pension liability	$ 11,782,000	$ 11,637,000	$ 11,053,000
School's covered-employee payroll	$ 3,477,208	$ 3,789,617	$ 3,840,991
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	338.84 %	307.08 %	287.76 %
Plan fiduciary net position as a percentage of the total pension liability	54.36 %	57.24 %	54.49 %

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

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

	June 30, 2016	June 30, 2015	June 30, 2014
School's contractually required contribution	$ 700,241	$ 755,173	$ 707,780
School's contributions in relation to the contractually required contribution	(372,772)	(755,173)	(707,780)
Contribution deficiency	$ 327,469	$ -	$ -
School's covered-employee payroll	$ 3,477,208	$ 3,789,617	$ 3,840,991
Contributions as a percentage of covered-employee payroll	20.14 %	19.93 %	18.43 %

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

See independent auditor's report.

COMPLIANCE INFORMATION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Charter High School for Architecture and Design (a nonprofit organization) as of and for the year ended June 30, 2016, 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 21, 2016. 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, we considered Charter High School for Architecture and Design's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Charter High School for Architecture and Design's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter High School for Architecture and Design's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter High School for Architecture and Design's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed 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.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
December 21, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT

THERE WERE NO FINDINGS.