CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Charter High School for Architecture and Design (a nonprofit organization) as of and for the year ended June 30, 2017, 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.

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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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance 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 January 31, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charter High School for Architecture and Design's internal control over financial reporting and compliance.

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
January 31, 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, 2017. 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, 2017, were $7,181,776, representing an increase of $701,844 from the year ended June 30, 2016.
- At June 30, 2017, the School reported an ending governmental fund balance of $154,118, representing a decrease of $534,553 from June 30, 2016.
- The School's cash balance at June 30, 2017, was $350,072, representing a decrease of $201,691 from June 30, 2016.

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 deferred outflows of resources, and liabilities and deferred inflows of resources, 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.

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.

Overview of the Financial Statements (Continued)

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.

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 the 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

	June 30,	
	2017	2016
Current and other assets	$ 1,755,942	$ 1,887,608
Capital assets	157,917	215,499
Total assets	1,913,859	2,103,107
Deferred outflows of resources	2,126,436	1,190,115
Current liabilities	1,522,205	1,099,890
Long-term liabilities	10,915,257	11,821,158
Total liabilities	12,437,462	12,921,048
Deferred inflows of resources	2,574,885	820,005
Net position:		
Net investment in capital assets	118,759	152,468
Restricted	50,500	-
Unrestricted	(11,141,311)	(10,600,299)
Total net position	$ (10,972,052)	$ (10,447,831)

Overview of the Financial Statements (Continued)

Government-Wide Financial Analysis (Continued)

As noted previously, 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 $10,972,052 as of June 30, 2017.

The School's revenues are predominately received from the School District of Philadelphia based on student enrollment. For the year ended June 30, 2017, the School's expenses of $7,856,459 exceeded its revenues of $7,332,238 by $524,221.

	2017	2016
Revenues:		
Program revenues:		
Operating grants and contributions	$ 2,256,660	$ 2,677,685
General revenues:		
Grants and contributions not restricted to specific programs	4,633,709	3,905,998
Miscellaneous	441,869	63,176
Total general revenues	5,075,578	3,969,174
Total revenues	7,332,238	6,646,859
Expenses:		
Other instructional programs	3,996,703	3,740,845
Pupil personnel services	430,682	441,843
Instructional staff services	128,207	112,661
Administrative services	1,054,109	1,345,184
Pupil health	73,271	68,812
Business services	154,254	149,656
Operation and maintenance of plant services	1,506,129	1,588,535
Other support services	174,691	253,892
Food services	207,523	213,165
Student activities	57,299	11,446
Interest expense	6,183	8,870
Depreciation expense	67,408	74,306
Total expenses	7,856,459	8,009,215
Change in net position	(524,221)	(1,362,356)
Net position - beginning	(10,447,831)	(9,085,475)
NET POSITION - ENDING	$ (10,972,052)	$ (10,447,831)

Overview of the Financial Statements (Continued)

Governmental Activities

Operating grants and contributions revenue decreased due to an ongoing matter with the School District of Philadelphia related to the per student subsidy. Revenue from grants and contributions not restricted to specific programs increased related to the sourcing of a private grant in the amount of $342,500. Governmental activities decreased the School's net position by $466,104, primarily related to an increase in salaries and benefits. The business-type activity decreased the School's net position by $58,117.

Governmental Fund

The focus of the School's governmental 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 June 30, 2017, the fund balance of the School totaled $154,118, of which $50,500 was restricted, and $(27,941) was unassigned.

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

Primary Government
As of June 30, 2017, the School's net investment in capital assets totaled $118,759 (net of accumulated depreciation and related debt). This net investment in capital assets includes furniture and fixtures, machinery, and equipment for the School, along with leasehold improvements.

Component Unit
As of June 30, 2017, the Organization's net investment in capital assets totaled $9,993,634 (net of accumulated depreciation and related debt), which includes land, buildings and improvements, furniture and equipment and software.

Long-Term Debt

At June 30, 2017, the School had capital lease obligations of $39,158.

At June 30, 2017, the Organization has bonds payable totaling $8,075,000 and long-term debt totaling $511,976 that is secured by the Organization's assets. The Organization also has $300,000 outstanding on a line of credit at June 30, 2017. The outstanding amounts on the long-term debt and the line of credit are due on December 31, 2018. Management of the Organization is working with a real estate broker to obtain tenants for the vacant space in the property in order to generate sufficient additional cash flows to satisfy these obligations.

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

This 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

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, 2017

	Governmental Activities	Business-Type Activity	Total	Component Unit
ASSETS				
Cash	$ 350,072	$ 13,197	$ 363,269	$ 158,955
Restricted cash	-	-	-	891,308
State subsidies receivable	112,796	191	112,987	-
Federal subsidies receivable	136,352	4,626	140,978	-
Local receivables	136,466	-	136,466	-
Prepaid expenses	131,559	24,479	156,038	18,867
Due from other funds	369,693	-	369,693	-
Due from related parties	476,511	-	476,511	81,479
Capital assets:				
Nondepreciable capital assets	-	-	-	1,642,530
Building and improvements	-	-	-	11,977,660
Leasehold improvements	911,660	-	911,660	-
Furniture and fixtures	656,188	61,257	717,445	428,207
Machinery and equipment	18,076	-	18,076	-
Software	-	-	-	20,284
Less: accumulated depreciation	(1,429,539)	(59,725)	(1,489,264)	(4,075,047)
Total assets	1,869,834	44,025	1,913,859	11,144,243
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	2,126,436	-	2,126,436	-

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2017

	Governmental Activities	Business-Type Activity	Total	Component Unit
LIABILITIES				
Accounts payable and accrued expenses	102,950	13,825	116,775	265,286
Salaries and benefits payable	323,479	-	323,479	-
Due to related party	81,479	-	81,479	476,504
Other current liabilities	6,140	-	6,140	-
Due to other funds	-	355,078	355,078	-
Due to local governments	612,353	-	612,353	-
Long-term obligations:				
Due within one year:				
Long-term debt	-	-	-	641,976
Line of credit	-	-	-	300,000
Capital lease payable	26,901	-	26,901	-
Due beyond one year:				
Long-term debt	-	-	-	7,597,056
Capital lease payable	12,257	-	12,257	-
Pension liability	10,903,000	-	10,903,000	-
Total liabilities	12,068,559	368,903	12,437,462	9,280,822
Commitments and contingencies (Notes 6, 7, 8, 9, 10, 11, 12, 13 and 14)				
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	2,574,885	-	2,574,885	-
NET POSITION				
Net investment in capital assets	117,227	1,532	118,759	-
Restricted net assets	50,500	-	50,500	237,890
Unrestricted	(10,814,901)	(326,410)	(11,141,311)	1,625,531
Total net position	$ (10,647,174)	$ (324,878)	$ (10,972,052)	$ 1,863,421

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues		Net Revenue (Expense) and Changes in Net Position			
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activity	Total	Component Unit
Primary government:							
Governmental activities:							
Other instructional programs	$ 3,996,703	$ -	$ 2,011,173	$ (1,985,530)	$ -	$ (1,985,530)	$ -
Pupil personnel services	430,682	-	-	(430,682)	-	(430,682)	-
Instructional staff services	128,207	-	-	(128,207)	-	(128,207)	-
Administrative services	1,054,109	-	-	(1,054,109)	-	(1,054,109)	-
Pupil health	73,271	-	-	(73,271)	-	(73,271)	-
Business services	154,254	-	-	(154,254)	-	(154,254)	-
Operation and maintenance of plant services	1,506,129	-	95,025	(1,411,104)	-	(1,411,104)	-
Other support services	174,691	-	-	(174,691)	-	(174,691)	-
Food services	-	-	-	-	(207,523)	(207,523)	-
Student activities	57,299	-	-	(57,299)	-	(57,299)	-
Interest expense	6,183	-	-	(6,183)	-	(6,183)	-
Depreciation expense (Note 5)	66,352	-	-	(66,352)	(1,056)	(67,408)	-
Total governmental activities	$ 7,647,880	$ -	$ 2,106,198	(5,541,682)	(208,579)	(5,750,261)	-
Component unit:							
Designing Futures Foundation and Subsidiaries	$ -	$ -	$ -	-	-	-	(2,262,117)
General revenues:							
Local educational agencies				4,633,709	-	4,633,709	-
Food services				-	150,462	150,462	-
Rental income				-	-	-	1,136,112
Other revenue				441,869	-	441,869	291,052
Total general revenues				5,075,578	150,462	5,226,040	1,427,164
Change in net position				(466,104)	(58,117)	(524,221)	(834,953)
Net position - beginning				(10,181,070)	(266,761)	(10,447,831)	2,698,374
NET POSITION - ENDING				$ (10,647,174)	$ (324,878)	$ (10,972,052)	$ 1,863,421

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2017

	General Fund
ASSETS	
Cash	$ 350,072
State subsidies receivable	112,796
Federal subsidies receivable	136,352
Local receivables	136,466
Prepaid expenses	131,559
Due from other funds	369,693
Due from related parties	476,511
TOTAL ASSETS	$ 1,713,449
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable and accrued expenses	$ 102,950
Salaries and benefits payable	756,409
Due to local governments	612,353
Due to related party	81,479
Other current liabilities	6,140
Total liabilities	1,559,331
Fund balance:	
Nonspendable	131,559
Restricted	50,500
Unassigned	(27,941)
Total fund balance	154,118
TOTAL LIABILITIES AND FUND BALANCE	$ 1,713,449

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, 2017

Total fund balance for the governmental fund		$ 154,118
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	(39,158)	
Net pension liability, net of required contractual liability	(10,470,070)	
		(10,509,228)
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	656,188	
Machinery and equipment	18,076	
Less: accumulated depreciation	(1,429,539)	
		156,385
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 as follows:		
Deferred outflows of resources related to pensions	2,126,436	
Deferred inflows of resources related to pensions	(2,574,885)	
		(448,449)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (10,647,174)

See accompanying notes to financial statements.

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, 2017

	General Fund
Revenues:	
Local educational agencies	$ 6,356,651
Other sources	441,869
State sources	143,817
Federal sources	239,439
Total revenues	7,181,776
Expenditures:	
Instruction	4,063,291
Support services	3,554,891
Non-instructional services	58,265
Debt service	30,056
Capital outlay	9,826
Total expenditures	7,716,329
Net change in fund balance	(534,553)
Fund balance - beginning	688,671
FUND BALANCE - ENDING	$ 154,118

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balance - governmental fund		$ (534,553)
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		23,873
The governmental fund reports capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense, as follows:		
Capital outlay	9,826	
Depreciation expense	(66,352)	
		(56,526)
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	(657,000)	
Cost of benefits earned net of employee contributions	758,102	
		101,102
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (466,104)

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

	Enterprise Fund
	Food Service Fund
ASSETS	
Current assets:	
Cash	$ 13,197
Federal subsidies receivable	4,626
State subsidies receivable	191
Prepaid expenses	24,479
Total current assets	42,493
Noncurrent assets:	
Capital assets:	
Furniture and fixtures	61,257
Less: accumulated depreciation	(59,725)
Capital assets, net	1,532
Total assets	44,025
LIABILITIES	
Current liabilities:	
Accounts payable	13,825
Due to general fund	355,078
Total liabilities	368,903
NET POSITION	
Net investment in capital assets	1,532
Unrestricted	(326,410)
Total net position	$ (324,878)

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Enterprise Fund
	Food Service Fund
Operating revenues:	
Food service revenues	$ 19,428
Operating expenses:	
Food and supplies	199,985
Administrative fees	7,538
Depreciation	1,056
Total operating expenses	208,579
Operating loss	(189,151)
Nonoperating revenues:	
Federal sources	125,916
State sources	5,118
Total nonoperating revenues	131,034
Change in net position	(58,117)
Net position - beginning	(266,761)
NET POSITION - ENDING	$ (324,878)

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, 2017

	Enterprise Fund
	Food Service Fund
Cash flows from operating activities:	
Cash received from students	$ 19,428
Payments to suppliers	(223,284)
Net cash used in operating activities	(203,856)
Cash flows from noncapital financing activities:	
Cash received from federal sources	182,274
Cash received from state sources	7,543
Due to the general fund	27,236
Cash provided by noncapital financing activities	217,053
Net change in cash	13,197
Cash - beginning	-
CASH - ENDING	$ 13,197

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (189,151)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,056
Changes in operating assets and liabilities:	
Accounts payable	(15,761)
NET CASH USED IN OPERATING ACTIVITIES	$ (203,856)

See accompanying notes to financial statements.

CHARTER HIGH SCHOOL FOR ARCHITECTURE AND DESIGN
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	Student Activities Fund
ASSETS	
Cash	$ 7,431
Due from general fund	7,184
Total assets	14,615
LIABILITIES	
Due to general fund	14,615
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 2016-2017 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 Nos. 14, 39 and 61. 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. 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. See Note 14 for a further discussion related to DFF.

Basis of Presentation

Government-wide financial statements

The statement of net position and the statement of activities display information about the School as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. The government-wide statements provide information about the primary government (the School) and its component unit, without displaying funds. These statements also distinguish between the *governmental* and *business-type activities* of the School and between the School and its discretely presented component unit. Eliminations have been made to minimize the double counting of internal activities.

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

Basis of Presentation (Continued)

Government-wide financial statements (continued)

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School and for each function of the School's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.
- Indirect expenses are those that are related to the administration and support of the School's programs, such as personnel and accounting (but not interest on long-term debt) and are allocated to programs based on their percentage of total primary government expenses. Interest expenses are allocated to the programs that manage the capital assets financed with long-term debt.
- Program revenues include charges paid by the recipients of goods or services offered by programs and grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue.

Fund financial statements

The fund financial statements provide information about the School's funds, including fiduciary funds and blended component units, if any. Separate statements for each fund category (*governmental, proprietary,* and *fiduciary)* are presented. The emphasis of governmental and enterprise fund reporting (enterprise funds are a type of proprietary fund) is on major funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. All other funds are aggregated and reported by fund type.

The School reports the following major governmental fund:

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

The Organization is accounted for under accounting principles generally accepted in the United States of America ("GAAP"), as applied to not-for-profit entities, is not subject to GASB and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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

Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenue available if it is collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt, which is recognized when due. Claims, judgments and compensated absences are recognized as expenditures only to the extent they are normally expected to be paid from existing unrestricted fund net position. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing.

Under the terms of grant agreements, the School supports certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net position is available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"), 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, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted - This component of net position consists of constraints placed on the use of net assets through external constraints imposed by creditors such as through debt covenants, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The School has $50,500 of restricted net assets from grantor purpose of use designations as of June 30, 2017.

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 balances into five components: nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

- Nonspendable - This category is for amounts that can't 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. The School has $50,500 of restricted fund balance from grantor purpose of use designations as of June 30, 2017.

- 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 the budgetary basis, which is consistent with GAAP for the governmental 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.

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

Receivables

Receivables primarily consist of amounts due from federal, state and local authorities. Receivables are stated at the amount management expects to collect. The School maintains an allowance for doubtful accounts for estimated losses resulting from the inability of governments to make required payments. If the financial conditions of these governments were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the School provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the School has made reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2017, no allowance for doubtful accounts 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 10 years.

Deferred Outflows/Inflows of Resources

GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of net position and related disclosures. In compliance with GASB 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 assets that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until that time.

Deferred inflows of resources represent an acquisition of net assets 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 and totaled $800 for the year ended June 30, 2017.

Income Tax Status

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

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

Uncertain Tax Positions

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

As of June 30, 2017, 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.

Pensions

The School adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* ("GASB 71"). Under GASB 68 and 71, 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 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.

Recently Adopted Governmental Accounting Standards

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* ("GASB 80"), which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions of GASB 80 were adopted for the School's June 30, 2017, financial statements. The effect of implementation was not material to the School's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* ("GASB 82"), 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 GASB 82 were adopted for the School's June 30, 2017, financial statements. The effect of implementation was not material to the School's financial statements.

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

Subsequent Events

The School has evaluated material subsequent events through January 31, 2018, the date on which these financial statements were available to be issued. Except as disclosed in Note 14, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 2. CASH

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School monitors custodial credit risk by periodically reviewing the Federal Deposit Insurance Corporation's ("FDIC") limits and the 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.

As of June 30, 2017, the custodial risk is as follows:

	Governmental Activities	Business-Type Activity
Uninsured and uncollateralized	$ 1,471	$ 13,197
Collateralized	-	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	177,584	-
Total	$ 179,055	$ 13,197

Reconciliation to the financial statements:

	Governmental Activities	Business-Type Activity
Cash exposed to custodial risk	$ 179,055	$ 13,197
Plus: insured amount	250,000	-
Less: outstanding checks	(78,983)	-
	$ 350,072	$ 13,197

NOTE 3. RECEIVABLES

A summary of receivables is as follows:

	Governmental Activities	Business-Type Activity
Federal	$ 136,352	$ 4,626
State	112,796	191
Local	136,466	-
	$ 385,614	$ 4,817

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, 2017, the rate was $8,139 per year per student for most of the students, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. Total revenue from student enrollment was $6,166,115 for the year ended June 30, 2017.

NOTE 5. CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2017, was as follows:

Governmental Activities:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Leasehold improvements	$ 911,660	$ -	$ -	$ 911,660
Furniture and fixtures	646,362	9,826	-	656,188
Machinery and equipment	18,076	-	-	18,076
Less: accumulated depreciation	(1,363,187)	(66,352)	-	(1,429,539)
Capital assets, net	$ 212,911	$ (56,526)	$ -	$ 156,385

Depreciation expense for the year ended June 30, 2017, was $66,352.

Business-Type Activity:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Furniture and fixtures	$ 61,257	$ -	$ -	$ 61,257
Less: accumulated depreciation	(58,669)	(1,056)	-	(59,725)
Capital assets, net	$ 2,588	$ (1,056)	$ -	$ 1,532

Depreciation expense for the year ended June 30, 2017, was $1,056.

NOTE 6. OBLIGATIONS UNDER CAPITAL LEASE

Computer equipment costing $112,994, with a net book value at June 30, 2017, of $30,014, 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:	Amount
2018	$ 30,056
2019	12,523
Total minimum lease payments	42,579
Less: amount representing interest	(3,421)
Present value of minimum lease payments	39,158
Less: current portion of capital lease obligations	(26,901)
Long-term portion of capital lease obligations	$ 12,257

Changes in capital lease obligations were as follows for the year ended June 30, 2017:

Balance, June 30, 2016	$ 63,031
Repayments of principal	(23,873)
Balance, June 30, 2017	$ 39,158

Interest expense on the capital lease was $6,183 for the year ended June 30, 2017.

NOTE 7. RELATED-PARTY TRANSACTIONS

Facility Leasing Arrangement

The School has an operating lease for the rental of its facilities from 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 lease are $64,583 through the end of the lease term.

During the year ended June 30, 2017, rent expense under the lease was approximately $775,000.

Minimum future lease payments under the operating lease as of June 30, 2017, are as follows:

Year ending June 30:	Amount
2018	$ 775,000
2019	775,000
2020	775,000
2021	775,000
2022	775,000
2023-2027	3,875,000
2028-2032	3,875,000
2033-2037	3,875,000
2038-2042	3,875,000
2043	549,000
	$ 19,924,000

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. Certain financial covenants applicable to the School were not met as of June 30, 2017, 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 Amended and Restated Lease.

Other

The School has advanced $476,504 to the Organization as of June 30, 2017. The advances, which are noninterest-bearing, do not have stated repayment terms but are expected to be repaid within one year.

The School has accounts payable to the Organization in the amount of $81,479 at June 30, 2017.

NOTE 8. RETIREMENT PLAN

Plan Description

The School contributes to a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the PSERS (or "Teachers' Plan"), 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 "Commonwealth"). 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 10 years of service.

NOTE 8. RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)

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

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (10 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 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (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 7.50% and 9.50% and Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

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 the fiscal year ended June 30, 2017, was 30.03% 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 required contributions to the PSERS for the years ended June 30, 2017, 2016 and 2015, amounted to $756,102, $700,241 and $755,173, respectively.

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

At June 30, 2017, the School reported a liability of $10,903,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 (beginning of the School's fiscal year), 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, 2015 to June 30, 2016. 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, 2016, the School's proportion was 0.0022%, which was a decrease of 0.0052% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School recognized pension expense of $657,000. At June 30, 2017, 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	$ 394,000	$ (91,000)
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	608,000	-
Changes in proportions	410,000	(2,373,000)
Difference between employer contributions and proportionate share of total contributions	-	(110,885)
Contributions subsequent to the measurement date	714,436	-
	$ 2,126,436	$ (2,574,885)

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

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 ending 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:

Year ending June 30:		Amount
2018	$	(274,000)
2019		(274,000)
2020		(280,000)
2021		(224,000)
	$	(1,052,000)

Actuarial Assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward the PSERS's total pension liability as of the June 30, 2015, actuarial valuation to June 30, 2016, 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 three 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 seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2015, valuation were based on the experience study that was performed for the five-year period ended 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, 2016.

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 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 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
The School's proportionate share of the net pension liability	$ 13,337,000	$ 10,903,000	$ 8,857,000

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 management, as of January 31, 2018, 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 $51,226 for the year ended June 30, 2017.

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 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 Organization follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires the Organization to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. Unrestricted net assets represent expendable funds that are available to support the operating activities of the Organization. Temporarily restricted net assets represent expendable funds that are earmarked for specific purposes. When the funds are expended, the restriction is satisfied and the funds are released from restriction. FASB ASC 958 also requires recognition of contributions, including donated services meeting certain criteria, at fair values.

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.

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, 2017, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Additionally, the Organization had no interest or penalties related to income taxes.

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, 2017, 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, less accumulated depreciation. 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
Furniture and equipment	7 years
Building and improvements	39 years

Debt Issuance Costs
Costs relating to the issuance of notes are amortized over the term of the related debt. At June 30, 2017, unamortized debt issuance costs of $347,944 are presented as a reduction of long-term debt in the accompanying statement of net position. Amortization expense, which was $13,513 for the year ended June 30, 2017, is included in "Interest expense" in the accompanying statement of activities.

NOTE 14. COMPONENT UNIT (CONTINUED)

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 statement of activities.

Recently Issued Accounting Pronouncement

In April 2015, FASB issued Accounting Standards Update ("ASU") No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). The update requires debt issuance costs related to a recognized debt liability be presented in the statement of net position as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. ASU 2015-03 was effective for the year ended June 30, 2017. The adoption of ASU 2015-03 resulted in a decrease of $347,944 to both assets and liabilities in the Organization's financial statements.

Concentration of Credit Risk

The Organization places its cash, which may at times be in excess of FDIC 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 91% of the Organization's total rental income for the year ended June 30, 2017.

During September 2016, one of 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 additional rentals from this tenant, and minimum rentals under the original lease term expiring June 16, 2021, are not included in the future minimum rental income disclosure.

During February 2017, one of these tenants vacated the premises. This tenant was paying rentals on a month-to-month basis.

NOTE 14. COMPONENT UNIT (CONTINUED)

Capital Assets

The Organization's capital assets consisted of the following:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Nondepreciable assets:				
Land	$ 1,642,530	$ -	$ -	$ 1,642,530
Depreciable assets:				
Buildings and improvements	$ 11,683,278	$ 294,382	$ -	$ 11,977,660
Furniture and equipment	393,038	35,169	-	428,207
Software	20,284	-	-	20,284
Total depreciable assets	12,096,600	329,551	-	12,426,151
Less: accumulated depreciation	(3,144,633)	(930,414)	-	(4,075,047)
Depreciable assets, net	$ 8,951,967	$ (600,863)	$ -	$ 8,351,104

Depreciation expense for the year ended June 30, 2017, was $930,414.

Rental Operations

The Partnership is a lessor of office space. Future minimum rental income under noncancelable leases and subleases expiring through 2043 at June 30, 2017, are as follows:

Year ending June 30:	Amount
2018	$ 880,444
2019	881,488
2020	845,992
2021	792,748
2022	775,000
Thereafter	16,048,958
	$ 20,224,630

Long-Term Debt

The Organization's long-term debt consists of a term loan and bonds payable.

Term loan

The term loan requires monthly payments of principal of $2,056 for 48 months until maturity on March 20, 2018, at which time 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 4.22% at June 30, 2017. At June 30, 2017, the balance outstanding on the term loan was $511,976. Interest incurred on the term loan amounted to $20,162 for the year ended June 30, 2017. The term loan agreement requires the Organization to comply with nonfinancial covenants. The Organization was in compliance with these covenants at June 30, 2017. The Organization and the School are co-borrowers on the term loan. All of the loan proceeds have been allocated to the Organization. The School does not have the expectation of having to make payments on any amounts allocated to the Organization.

NOTE 14. COMPONENT UNIT (CONTINUED)

Long-Term Debt (Continued)

Bonds payable

On March 1, 2013, DFF and the Partnership borrowed $8,540,000 of Series 2013 bonds; proceeds were used for the refinance of existing indebtedness and improvements to its facilities. The bonds are 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 $8,075,000 at June 30, 2017. During the year ended June 30, 2017, $125,000 of the bonds were redeemed. The bonds require DFF to comply with nonfinancial covenants.

Future principal and interest requirements of the bonds payable based on the schedule of mandatory sinking fund redemption are as follows:

Year ending June 30:	Principal	Interest	Total
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	160,000	457,406	617,406
2023-2027	940,000	2,142,262	3,082,262
2028-2032	1,260,000	1,819,432	3,079,432
2033-2037	1,700,000	1,382,720	3,082,720
2038-2042	2,290,000	794,413	3,084,413
2043	1,165,000	71,356	1,236,356
	$ 8,075,000	$ 8,572,551	$ 16,647,551

The Organization also maintains several cash accounts whereby the funds are restricted for the purpose of paying required principal and interest payments on the bonds. Total restricted cash as of June 30, 2017, was $891,308.

Presentation of the amounts due beyond one year for the long-term debt in the statement of net position is as follows:

Total long-term debt	$ 8,586,976
Amounts due within one year	(641,976)
Less: debt issuance costs	(347,944)
	$ 7,597,056

NOTE 14. COMPONENT UNIT (CONTINUED)

Line of Credit

The Organization and the School, as co-borrowers, maintain a line of credit ("line") with a commercial bank with a borrowing limit of $300,000 that expires on December 31, 2017. All borrowings have been allocated to the Organization. The School does not have the expectation of having to make payments on any amounts allocated to the Organization. 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 the line bear interest at a rate per annum equal to the daily LIBOR, adjusted monthly, plus 2.25%. The effective rate was 3.47% at June 30, 2017. Collateral is a pledge of gross revenues and a mortgage on the School property on parity with the Series 2013 bondholders. At June 30, 2017, the balance outstanding on the line was $300,000. Interest incurred on the line of credit amounted to $9,828 for the year ended June 30, 2017. The line of credit agreement requires DFF to comply with nonfinancial covenants. DFF was in compliance with these covenants at June 30, 2017.

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.

Related-Party Transactions

Lease Agreement:

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, 2017, was approximately $775,000.

Minimum future rental income receivable as of June 30, 2017, is as follows:

Year ending June 30:	Amount
2018	$ 775,000
2019	775,000
2020	775,000
2021	775,000
2022	775,000
Thereafter	16,049,000
	$ 19,924,000

Intercompany:

The Organization, Partnership, and School make and receive advances in the normal course of operations, which are non-interest bearing. The Organization owes the School $476,504 as of June 30, 2017.

The Organization has accounts receivable from the School in the amount of $81,479 at June 30, 2017.

NOTE 14. COMPONENT UNIT (CONTINUED)

Related-Party Transactions (Continued)

Liquidity:
As noted above, two of the Organization's significant tenants have vacated the premises. Additional rental income from these tenants is not expected. Also, the Organization has long-term debt of $511,976 that is required to be repaid during March 2018. In addition, the Organization has $300,000 outstanding on a line of credit that was required to be repaid on December 31, 2017.

The Organization has engaged a real estate broker to assist them in leasing the vacant space in the property.

During January 2018, the lender of the long-term debt and the line of credit extended the maturity date until December 31, 2018.

If the Organization is unable to lease the vacant space and generate additional cash flows to repay the line of credit and the long-term debt on the extended maturity date, the School will make an additional rental payment to the Organization to satisfy these obligations. Accordingly, the Board of Trustees of the School and the Board of Trustees of the Organization have entered into a resolution that provides for the payment of additional rent to satisfy obligations of the Organization.

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, 2017

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
Revenues:				
Local educational agencies	$ 7,157,342	$ 7,157,342	$ 6,356,651	$ (800,691)
Other sources	-	-	441,869	441,869
State sources	104,604	104,604	143,817	39,213
Federal sources	387,274	387,274	239,439	(147,835)
Total revenues	7,649,220	7,649,220	7,181,776	(467,444)
Expenditures:				
Instruction	4,000,295	4,000,295	4,063,291	62,996
Support services	3,507,232	3,507,232	3,554,891	47,659
Non-instructional services	53,862	53,862	58,265	4,403
Debt service	-	-	30,056	30,056
Capital outlay	-	-	9,826	9,826
Total expenditures	7,561,389	7,561,389	7,716,329	154,940
Net change in fund balance	87,831	87,831	(534,553)	(622,384)
Fund balance - beginning	688,671	688,671	688,671	-
FUND BALANCE - ENDING	$ 776,502	$ 776,502	$ 154,118	$ (622,384)

***The School adopts an annual budget on the budgetary basis, which is consistent with GAAP for the governmental funds.**

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, 2017	June 30, 2016	June 30, 2015
School's proportion of the net pension liability	0.0220 %	0.0270 %	0.0270 %
School's proportionate share of the net pension liability	$ 10,903,000	$ 11,782,000	$ 11,637,000
School's covered-employee payroll	$ 2,524,482	$ 2,844,983	$ 3,477,208
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	431.89 %	414.13 %	334.67 %
Plan fiduciary net position as a percentage of the total pension liability	50.14 %	54.36 %	57.24 %

***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, 2017	June 30, 2016	June 30, 2015
School's contractually required contribution	$ 758,102	$ 700,241	$ 755,173
School's contributions in relation to the contractually required contribution	(325,172)	(700,241)	(755,173)
Contribution deficiency	$ 432,930	$ -	$ -
School's covered-employee payroll	$ 2,524,482	$ 2,844,983	$ 3,477,208
Contributions as a percentage of covered-employee payroll	30.03 %	24.61 %	21.72 %

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

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) (the "School") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated January 31, 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, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-002, to be a significant deficiency.

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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2017-001.

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

Charter High School for Architecture and Design's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Citrin Cooperman & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
January 31, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2017-001 Compliance

Criteria:

The School is required to maintain certain federal criminal background checks for each employee in their personnel files.

Condition:

In a review of 10 employee files, five employee files did not contain the appropriate background check.

Cause:

Lack of management oversight resulted in the employee files missing proper background checks.

Effect:

Failure to obtain and maintain appropriate background checks in employee files is a violation of laws and regulations.

Recommendation:

We recommend that management review all employee files to ensure that they contain the proper background checks and implement procedures to ensure that these background checks are obtained upon the hiring of new personnel.

Views of Responsible Officials:

Management agrees with the compliance finding.

Actions Planned in Response to Finding:

The School is currently in the process of reviewing all employee files and implementing procedures to ensure that all appropriate background checks and clearances are obtained upon the hiring of new personnel.

Finding 2017-002 Significant Deficiency: School District Revenue

Criteria:
The School's local school district revenue is based on student enrollment.

Condition:

During the June 30, 2017 financial statement audit, it was determined that the enrollment report used to invoice the School District of Philadelphia contained several errors, resulting in accounts receivable and local revenue being understated by approximately $19,000 as of and for the year ended June 30, 2016. In addition, eight students that were previously billed to a local school district other than the School District of Philadelphia were erroneously billed to the School District of Philadelphia also, resulting in over-billing of approximately $77,000.

FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2017-002 Significant Deficiency: School District Revenue (Continued)

Context:

In order to ensure financial information is useful for decision-making and evaluating organizational performance, controls must be properly designed, in place, and operating effectively to ensure that the School's financial information is fairly stated in accordance with accounting principles generally accepted in the United States of America.

Cause:

Adequate controls, including management oversight, were not in place to ensure that student information is properly included in the enrollment report.

Effect:

Material financial statement misstatements could occur and go undetected.

Recommendation:

We recommend that management review its policies and procedures for reporting student enrollment. Management should assign designated personnel to enter enrollment data. This data should be reviewed and approved by management.

Views of Responsible Officials:

Management agrees with the deficiency in internal control.

Actions Planned in Response to Finding:

The School has 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 Calculations Report extracted directly from the School District of Philadelphia Charter School Payment module.