

Achievement House Charter School

**Financial Statements
And
Independent Auditors' Report**

Year Ended June 30, 2012

**Achievement House Charter School
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Year Ended June 30, 2012**

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Independent Auditors' Report

To the Board of Trustees
Achievement House Charter School
Exton, Pennsylvania

We have audited the accompanying financial statements of the governmental activities and the major fund of Achievement House Charter School (the School), as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Achievement House Charter School's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Achievement House Charter School as of June 30, 2012, 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.

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2013, on our consideration of Achievement House Charter School'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents 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.

SD Associates P.C.

Certified Public Accountants
Elkins Park, Pennsylvania

April 24, 2013

Achievement House Charter School Management's Discussion and Analysis June 30, 2012

The Board of Trustees of Achievement House Charter School (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, 2012. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- At the close of the current fiscal year, the School reports an ending fund balance of \$1,458,990. This balance was the result of a \$81,088 surplus for the year ended June 30, 2012.
- The School's cash balance at June 30, 2012 was \$339,239, representing a decrease of \$238,582 from June 30, 2011.
- The School's revenue from the local school districts increased approximately \$1,994,000 from the year ended June 30, 2011.
- During the year the School recovered approximately \$54,000 resulting from an employee theft in 2008.
- The School's available revolving line of credit was increased from \$500,000 to \$1,000,000 on August 6, 2013 (Note 5).
- During the year, the School entered into two long-term operating leases for its Exton and Oakmont facilities. Rent is being reflected on a straight-line basis for both leases (Note 7).
- During the year, the School entered into a capital lease for furniture and fixtures (Note 7).
- The School's charter was renewed through June 30, 2017.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements as presented comprise three components: Management's Discussion and Analysis (this section), the basic financial statements and supplementary information.

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

Achievement House Charter School Management's Discussion and Analysis June 30, 2012

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

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

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School.

Fund Financial Statements

A *fund* is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has only one fund type, the governmental general 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 is presented for purposes of additional analysis.

Government-Wide Financial Analysis

Management has adopted Governmental Accounting Standards Board (GASB) Statement 34 which requires a comparative analysis of current and prior periods.

	2012	2011
Assets		
Other assets	\$ 2,311,358	\$ 2,086,432
Capital assets, net	1,099,604	1,006,082
	3,410,962	3,092,514
Liabilities	927,270	717,425
Net Assets	\$ 2,483,692	\$ 2,375,089

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$2,483,692 as of June 30, 2012, an increase of \$108,603 from June 30, 2011.

Achievement House Charter School Management's Discussion and Analysis June 30, 2012

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

The School's revenues are predominately local school district's funds based on the student enrollment. For the year ended June 30, 2012, the School's total revenues of \$8,849,622 exceeded expenditures of \$8,741,019 by \$108,603, a decrease of 69,158 as compared to the preceding year.

	2012	2011
Revenues		
Program revenues		
Local educational agency assistance	\$ 8,391,266	\$ 6,396,943
Other local sources	101,574	13,286
State sources	146,732	172,488
Federal sources	210,050	346,488
Total revenues	8,849,622	6,929,205
 Expenditures		
Instruction	3,745,986	2,798,383
Support services	4,405,712	3,665,799
Noninstructional services	32,655	43,652
Debt service	3,210	4,262
Depreciation-unallocated	553,456	377,664
Total expenditures	8,741,019	6,889,760
 Change in net assets	108,603	39,445
Net assets, beginning	2,375,089	2,335,644
 Net assets, ending	\$ 2,483,692	\$ 2,375,089

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, *fund balance* may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

The School's governmental fund (the General Fund) reported an ending fund balance of \$1,458,990.

Achievement House Charter School Management's Discussion and Analysis June 30, 2012

Budget Variations

The actual revenues represent an increase from budgeted revenues of \$518,841 due mainly to an increase in local educational agency assistance of \$477,040.

Actual expenditures increased \$532,792 from the budget, due mainly to increases in support services of \$622,777, capital outlay of \$129,977 and debt service of \$17,433 and decreases in instructional services of \$226,300 and noninstructional services of \$11,095.

Other financing sources include a capital lease obligation of \$80,229 which was not budgeted.

Capital Assets

As of June 30, 2012, the School's investment in capital assets for its governmental activities totaled \$1,099,604 (net of accumulated depreciation and amortization). This investment in capital assets includes a building, leasehold improvements, furniture, and computer and office equipment.

Major capital asset purchases during the year included the following:

- Capital expenditures of \$447,654 for computer equipment
- Capital expenditures of \$7,785 for leasehold improvements
- Capital expenditures of \$178,403 for furniture and fixtures
- Capital expenditures of \$13,136 for a vehicle

Additional information on the School's capital assets can be found in Note 4 of this report.

Long-Term Debt

The School has a capital lease for the purchase of furniture and fixtures. Additional information can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The School's primary source of revenue, the per student subsidy provided by the local school districts, will increase by approximately \$1,500,000 for fiscal year 2012-2013, due to an increase in student enrollment.

Future Events that will Financially Impact the School

The School anticipates adding more student centers across the State. This will require initial investments of staff, facility, and materials.

**Achievement House Charter School
Management's Discussion and Analysis
June 30, 2012**

Contacting the School's Financial Management

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report should be addressed to the Chief Executive Officer, Achievement House Charter School, 600 Eagleview Boulevard, First Floor, Exton, PA 19341.

Achievement House Charter School
Statement of Net Assets
June 30, 2012

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 339,239
Federal subsidies receivable	12,960
State subsidies receivable	36,618
Local subsidies receivable	1,773,058
Prepaid expenses	86,925
Total current assets	2,248,800
Deposits	62,558
Capital assets, net	1,099,604
	3,410,962
Liabilities	
Current liabilities	
Accounts payable	121,124
Accrued expenses	560,076
Deferred rent	171,168
Capital lease obligation, current portion	13,679
Total current liabilities	866,047
Long-term portion, capital lease obligation	61,223
	927,270
Net Assets	
Invested in capital assets, net of related debt	1,024,702
Restricted for capital projects	100,000
Unrestricted	1,358,990
	\$ 2,483,692

See accompanying notes to financial statements.

Achievement House Charter School
Statement of Activities
Year Ended June 30, 2012

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental Activities				
Instruction	3,745,986	\$ -	\$ 4,149,810	\$ 403,824
Support services	4,405,712	-	4,598,238	192,526
Noninstructional services	32,655	8,173	-	(24,482)
Depreciation and amortization	553,456	-	-	(553,456)
Interest expense	3,210	-	-	(3,210)
Total governmental activities	<u>\$ 8,741,019</u>	<u>\$ 8,173</u>	<u>\$ 8,748,048</u>	15,202
				<u>93,401</u>
				108,603
				<u>2,375,089</u>
				<u>\$ 2,483,692</u>

See accompanying notes to financial statements.

**Achievement House Charter School
Balance Sheet-Governmental Fund
June 30, 2012**

	General Fund
Assets	
Cash and cash equivalents	\$ 339,239
Federal subsidies receivable	12,960
State subsidies receivable	36,618
Local subsidies receivable	1,773,058
Prepaid Expenses	86,925
Total current assets	2,248,800
Security deposit	62,558
Total assets	\$ 2,311,358
Liabilities	
Current Liabilities	
Accounts payable	\$ 121,124
Accrued expenses	560,076
Deferred rent	171,168
Total current liabilities	852,368
Fund Balance	
Nonspendable	86,925
Committed	100,000
Unassigned	1,272,065
Total fund balances	1,458,990
Total liabilities and fund balances	\$ 2,311,358

See accompanying notes to financial statements.

**Achievement House Charter School
 Reconciliation of the Balance Sheet of Governmental Funds
 To the Statement of Net Assets
 June 30, 2012**

Total Fund Balance for Governmental Funds \$ 1,458,990

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Leasehold improvements	83,517	
Building	87,931	
Furniture and fixtures	216,234	
Vehicle	13,136	
Computers	2,023,854	
Accumulated depreciation and amortization	<u>(1,325,068)</u>	
		1,099,604

Long-term liabilities that pertain to governmental funds, including a capital lease, 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 assets. Balances at year end are:

Capital lease obligation		<u>(74,902)</u>
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Total Net Assets of Governmental Activities \$ 2,483,692

Achievement House Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balance-
Governmental Funds
Year Ended June 30, 2012

	General Fund
Revenues	
Program revenues	
Local educational agency assistance	\$ 8,391,266
Other sources	101,574
State sources	146,732
Federal sources	210,050
Total revenues	8,849,622
Expenditures	
Instruction	3,745,986
Support service	4,405,712
Noninstructional services	32,655
Capital outlay	646,977
Debt service	17,433
Total expenditures	8,848,763
Other Financing Sources	
Capital lease obligation	80,229
Excess of Revenues and other Financing Sources Over Expenditures	81,088
Fund Balance - Beginning of Year	1,377,902
Fund Balance - End of Year	\$ 1,458,990

See accompanying notes to financial statements.

**Achievement House Charter School
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities
 Year Ended June 30, 2012**

Net Change in Fund Balances - Total Governmental Funds \$ 81,088

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. This is the amount by which capital outlays exceeds depreciation in the current period.

Capital outlays	646,977	
Depreciation and amortization expense	<u>(553,456)</u>	93,521

The governmental funds report the capital lease as financing sources, while repayment of the principal on the capital lease is reported as an expenditure. In the statement of net assets, 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 the capital lease is as follows:

Capital lease obligation incurred	(80,229)	
Principal payments on capital lease obligations	<u>14,223</u>	

Change in Net Assets of Governmental Activities \$ 108,603

Achievement House Charter School
Notes to Financial Statements
June 30, 2012

Note 1 Background and Summary of Significant Accounting Policies

Achievement House Charter School (the School) is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997. The mission of the School is to leverage technology on behalf of students who need a more personalized approach to education to maximize their potential and meet the highest performance standards. This mission is accomplished through a uniquely individualized learning program that combines the best in virtual education with very real connections among students, family, teachers, and the community. The School's charter was renewed for an additional five years through June 30, 2017.

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets 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.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements:

The statement of net assets 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 90 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Achievement House Charter School
Notes to Financial Statements
June 30, 2012

Note 1 Background and Summary of Significant Accounting Policies (Continued)

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

The government reports the following major governmental fund:

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

Amounts reported as program revenues include a per-student subsidy from local school districts as well as federal and state grants. Internally dedicated resources are reported as general revenues rather than as program revenues.

Method of Accounting

The School has adopted the provision of Statement No. 34 (“Statement 34”) of the Governmental Accounting Standards Board “*Basic Financial Statements – and Managements’ Discussion and Analysis – for State and Local Governments.*” Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These calculations are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets 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 debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed for the included program.

Achievement House Charter School
Notes to Financial Statements
June 30, 2012

Note 1 Background and Summary of Significant Accounting Policies (Continued)

Fund Balances - Governmental Funds

The School elected to implement GASB No. 54, *Fund Balance Reporting and Governmental Type Definition* during the year ended June 30, 2011. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The School classified prepaid expenses as being nonspendable as these items are not expected to be converted to cash.
- Restricted - included amounts restricted by external sources, such as creditors or grantors, or by constitutional provision or enabling legislation.
- Committed - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. The Board has committed \$100,000 for future capital improvements or acquisitions.
- Assigned - includes amounts that the School intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned - includes all amounts that are not included in other spendable classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual budget is adopted for the General Fund.

The Budgetary Comparison Schedule should present both the original and the final appropriated budgets for the reporting period. The School only has a general fund budget; therefore, the original budget filed and accepted by the Pennsylvania Department of Education is the final budget as well.

Achievement House Charter School
Notes to Financial Statements
June 30, 2012

Note 1 Background and Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid investments with an original maturity of three months or less.

Capital Assets

Capital assets, which include property, plant 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 does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The School established a threshold of \$1,500 for capitalization of depreciable assets. Similar items purchased in the same timeframe and items related to the same project or purchase can be pooled together for capitalization and depreciation. Capital assets of the School are depreciated using the straight-line method over the useful lives of the assets; computer equipment (3 years), furniture and equipment (7 years) and a vehicles (5 years). Leasehold improvements and the capital leases are amortized over the term of their respective lease terms.

Advertising Costs

All costs associated with advertising and promotions are recorded as expenditures in the year incurred.

Deferred Rent

Rent expense is being recognized on a straight-line basis over the life of the lease. The difference between rent expense recognized and rental payments, as stipulated in the lease, is reflected as deferred rent on the balance sheet.

Achievement House Charter School
Notes to Financial Statements
June 30, 2012

Note 1 Background and Summary of Significant Accounting Policies (Continued)

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. The School adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management evaluated the School's tax positions and concluded that the School had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The School files a Return of Organizations Exempt from Income Tax annually. The School's returns for 2008, 2009, 2010, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

Note 2 Cash and Cash Equivalents

The School's cash and cash equivalents balance at June 30, 2012, was \$339,239. The actual amount of cash on deposit in the School's bank accounts at June 30, 2012 was \$741,675. As of June 30, 2012 all cash balances are fully insured by the Federal Deposit Insurance Corporation (FDIC). Effective January 1, 2013, the FDIC reduced coverage on non interest bearing accounts for each bank to \$250,000 but the School does not believe it would be exposed to any credit risk.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's uninsured deposits may not be returned. The School does not have a policy for custodial credit risk.

Note 3 Receivables

Receivables as of June 30, 2012 consist primarily of subsidies from federal, state, and local authorities. Receivables are shown net of an allowance for uncollectible accounts of \$20,000.

Note 4 Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	July 1, 2011	Additions	Deletions	June 30, 2012
Computer equipment	\$ 1,576,200	\$ 447,654	\$ -	\$ 2,023,854
Furniture and fixtures	37,831	178,403	-	216,234
Vehicle	-	13,136	-	13,136
Building	87,931	-	-	87,931
Leasehold improvements	75,732	7,785	-	83,517
	1,777,694	646,978	-	2,424,672
Less: accumulated depreciation & amortization	771,612	553,456	-	1,325,068
	\$ 1,006,082	\$ 93,522	\$ -	\$ 1,099,604

Depreciation and amortization expense for the year ended June 30, 2012 was \$553,456.

Achievement House Charter School
Notes to Financial Statements
June 30, 2012

Note 5 Bank Line of Credit

The School's \$500,000 revolving line of credit (the Line) with Penn Liberty Bank (the Bank) was increased to \$1,000,000 on August 6, 2012. Interest is payable at the Wall Street prime rate plus 1% with a 4.5% interest rate floor. The Line is secured by all assets, tangible and intangible, of the School. There were no advances during the year and the Line is due August 1, 2013.

Note 6 Funding

The School receives funding from the from various local districts on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis. The Commonwealth of Pennsylvania makes contributions on behalf of the charter school for the employer's share of retirement payments and social security payments.

Note 7 Commitments

Operating Lease Obligations

The School leases multiple facilities in Pennsylvania, including two new long-term leases for the Exton and Oakmont facilities, under various operating leases expiring through June, 2019. In addition to the basic rent, the School is required to pay its proportionate share of occupancy costs, utilities, and maintenance. Rent expense was \$346,061 for the year ended June 30, 2012.

Rent expense on the two new long-term operating leases, which are being recognized on the straight-line basis, was \$195,943 for the year ended December 31, 2012. Rent paid, as a result of rent deferrals, was \$24,775 for the year ended December 31, 2012. The cumulative difference between rent paid and rent calculated on the straight-line basis is \$171,168 and is reflected on the balance sheet as deferred rent.

Future minimum lease payments as of June 30, 2012 are as follows:

Year Ending June 30,	
2013	\$ 559,375
2014	376,488
2015	383,600
2016	390,713
2017	373,050
2018 and thereafter	618,788
	\$ 2,702,014

Achievement House Charter School
Notes to Financial Statements
June 30, 2012

Note 7 Commitments (Continued)

Capital Lease Obligations

Furniture and fixtures costing \$80,229 with a net book value of \$70,879 is held under a capital lease, with interest at 9.55% per annum. The following is a schedule of future minimum lease payments required as of June 30, 2012:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 13,679	\$ 6,565	\$ 20,244
2014	15,044	5,200	20,244
2015	16,544	3,700	20,244
2016	18,195	2,049	20,244
2017	11,440	8,804	20,244
	<u>\$ 74,902</u>	<u>\$ 26,318</u>	<u>\$ 101,220</u>

Changes in capital lease obligations are as follows:

Balance, July 1, 2012	\$ 8,896
Additions	80,229
Repayments of principal	(14,223)
	<u>\$ 74,902</u>

Interest expense on capital leases was \$3,210 for the year ended June 30, 2012.

Note 8 Retirement Plan

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

Achievement House Charter School
Notes to Financial Statements
June 30, 2012

Note 8 Retirement Plan (Continued)

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth. The rate of contribution for employees ranges from 5.25% - 7.5% depending upon classification and elections of employees. The School's contribution is 8.65%. In accordance with Act 29 of 1994, the Commonwealth of Pennsylvania will pay school entities for contributions made to the System based on the formula in Act 29 of 1994, but not less than one-half of the school entities contributions. The School's contributions to the Plan were \$326,792, \$150,172 and \$62,720, for the years ended June 30, 2012, 2011, and 2010, respectively, which equals 100% of the contractually required contribution as set by State statutes.

Note 9 Grants

The School participates in numerous local, state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note 10 Risk Management

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

Note 11 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 of the financial position of the School.

Note 12 Subsequent Event

On August 6, 2012 the School increased its revolving line of credit with Penn Liberty Bank from \$500,000 to \$1,000,000 (Note 5).

Supplementary Information

**Achievement House Charter School
Governmental Fund Budgetary Comparison Schedule
Year Ended June 30, 2012**

	Budget	Actual Revenues/ Expenditures	Variance With Budget
Revenues			
Local educational agency assistance	\$ 7,914,226	\$ 8,391,266	\$ 477,040
Other sources	21,000	101,574	80,574
State sources	124,000	146,732	22,732
Federal sources	271,555	210,050	(61,505)
Total revenues	<u>8,330,781</u>	<u>8,849,622</u>	<u>518,841</u>
Expenditures			
Instruction	3,972,286	3,745,986	226,300
Support service	3,782,935	4,405,712	(622,777)
Noninstructional services	43,750	32,655	11,095
Capital outlay	517,000	646,977	(129,977)
Debt service	-	17,433	(17,433)
Total expenditures	<u>8,315,971</u>	<u>8,848,763</u>	<u>(532,792)</u>
Other Financing Sources			
Capital lease obligation	-	80,229	80,229
Excess of Revenues and Other Financing Sources Over Expenditures			
	14,810	81,088	66,278
Fund Balance, Beginning	<u>1,377,902</u>	<u>1,377,902</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 1,392,712</u>	<u>\$ 1,458,990</u>	<u>\$ 66,278</u>

See accompanying notes to financial statements.

Other Reports Required By Government Auditing Standards

**Independent Auditors' Report on Compliance
and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Board of Trustees
Achievement House Charter School
Exton, Pennsylvania

We have audited the financial statements of the governmental activities and the major fund of Achievement House Charter School (the School) as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon, dated April 24, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SD Associates P.C.

Certified Public Accountants
Elkins Park, Pennsylvania

April 24, 2013