

Achievement House Charter School

**Financial Statements
And
Independent Auditor's Report**

Year Ended June 30, 2017

**Achievement House Charter School
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Year Ended June 30, 2017**

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Independent Auditor's 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, 2017, and the related notes to the financial statements, which collectively comprise the School'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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Achievement House Charter School as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 14, 2018, 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 in considering Achievement House Charter School's internal control over financial reporting and compliance.

SD Associates P.C.

Certified Public Accountants
Elkins Park, Pennsylvania

February 14, 2018

Achievement House Charter School Management's Discussion and Analysis June 30, 2017

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, 2017. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- The School adopted GASB 68 for the year ended June 30, 2015 and is accordingly reporting its share of the June 30, 2017 total PSERS pension liability calculated to be \$13,033,000 (see Note 7).
- Total revenues decreased by approximately \$741,000 due mainly to decreases in local education agency assistance of \$659,000.
- At the close of the current fiscal year, the School reports an ending general fund balance of \$722,265. This balance was the result of a \$380,639 deficit for the year ended June 30, 2017.
- The School's unrestricted cash balance at June 30, 2017 was \$1,629,179, representing a decrease of \$995,799 from June 30, 2016.

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

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

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.

**Achievement House Charter School
Management's Discussion and Analysis
June 30, 2017**

Overview of the Financial Statements (Continued)

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's two kinds of funds, governmental and proprietary, use different accounting approaches.

Most of the School's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. 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.

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.

	2017	2016
Assets		
Current assets	\$ 2,151,533	\$ 3,091,471
Capital assets, net	206,730	456,426
	2,358,263	3,547,897
 Deferred Outflows of Resources	 3,458,453	 3,144,804

**Achievement House Charter School
Management's Discussion and Analysis
June 30, 2017**

Government-Wide Financial Analysis (Continued)

Liabilities		
Current liabilities	1,429,268	1,998,412
Long-term liabilities	13,033,000	18,409,000
	<u>14,462,268</u>	<u>20,407,412</u>
Deferred Inflows of Resources	<u>6,266,000</u>	<u>792,000</u>
Net Position	<u>\$ (14,911,552)</u>	<u>\$(14,506,711)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$14,911,552 as of June 30, 2017, a decrease of \$404,841 from June 30, 2016.

The School's revenues are predominately local school district's funds based on the student enrollment. For the year ended June 30, 2017, the School's total expenditures of \$8,148,368 exceeded revenues of \$7,743,527 by \$404,841, a decrease of \$864,764 as compared to the preceding year.

	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues		
Local educational agency assistance	\$ 7,147,190	\$ 7,805,511
State sources	65,310	79,173
Federal sources	500,202	587,734
General revenues		
Other sources	30,825	11,580
Total revenues	<u>7,743,527</u>	<u>8,483,998</u>
Expenditures		
Instruction	4,087,276	4,475,310
Support services	3,822,499	4,994,152
Noninstructional services	7,952	14,588
Depreciation and amortization	230,364	267,413
Interest expense	277	2,140
Total expenditures	<u>8,148,368</u>	<u>9,753,603</u>
Change in net position	(404,841)	(1,269,605)
Net position, beginning	<u>(14,506,711)</u>	<u>(13,237,106)</u>
Net position, ending	<u>\$ (14,911,552)</u>	<u>\$(14,506,711)</u>

**Achievement House Charter School
Management's Discussion and Analysis
June 30, 2017**

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 \$722,265.

Budget Variations

The actual revenues represent an increase from budgeted revenues of \$283,430 due mainly to increases in school district revenue of approximately \$215,000 and State source increases of approximately \$65,000.

Actual expenditures increased \$739,069 from the budget due to increases (decreases) as follows:

Instructional services	\$ 575,019
Support services	235,905
Noninstructional services	(7,048)
Capital outlay	(74,930)
Debt service	10,123
	<u>\$ 739,069</u>

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, the School's investment in capital assets for its governmental activities totaled \$206,760 (net of accumulated depreciation and amortization). This investment in capital assets includes computer equipment, furniture and fixtures, vehicle, building and leasehold improvements.

Major capital assets purchases during the year included computer equipment of \$55,070.

Long-Term Debt

The School had a capital lease obligation of \$9,846 that was paid off during the year. Additional information on the School's long-term debt can be found in Note 6 of this report.

**Achievement House Charter School
Management's Discussion and Analysis
June 30, 2017**

Economic Factors and Next Year's Budgets and Rates

The School 's primary source of revenue, the per student subsidy provided by local school districts, will remain consistent with fiscal year 2016-2017 due to a stable enrollment.

Future Events that will Financially Impact the School

There has been consistent debate and speculation among lawmakers regarding a separate funding formula for cyber charter schools. At this time, it appears that the same formula will be used to fund cyber charter schools as their brick and mortar counterparts.

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 Business Office, Achievement House Charter School, 600 Eagleview Boulevard, First Floor, Exton PA 19341.

Achievement House Charter School
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,629,179
Local educational agencies receivable, net of allowance for doubtful accounts	180,072
Subsidies receivable	180,538
Prepaid expenses	99,186
Property and equipment, net	206,730
Deposits	62,558
Total assets	2,358,263
Deferred Outflows of Resources	
Deferred outflows related to pensions	3,458,453
Liabilities	
Accounts payable	254,319
Local educational agencies payable	374,016
Accrued expenses	777,155
Deferred rent	23,778
Net pension liability	13,033,000
Total liabilities	14,462,268
Deferred Inflows of Resources	
Deferred inflows related to pensions	6,266,000
Net Position	
Invested in capital assets	206,730
Unrestricted	(15,118,282)
Total net position	\$ (14,911,552)

See accompanying notes to financial statements.

Achievement House Charter School
Statement of Activities
June 30, 2017

<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 Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental Activities				
Instruction	\$ 4,087,276	\$ 3,703,228	\$ 564,375	\$ 180,327
Support services	3,822,499	3,443,962	1,137	(377,400)
Noninstructional services	7,952	-	-	(7,952)
Depreciation and amortization	230,364	-	-	(230,364)
Interest expense	277	-	-	(277)
Total governmental activities	<u>\$ 8,148,368</u>	<u>\$ 7,147,190</u>	<u>\$ 565,512</u>	<u>\$ (435,666)</u>
General Revenues				
Other revenues				30,228
Gain on sale of building				597
				<u>30,825</u>
Change in net position				(404,841)
Net Position - Beginning of Year				<u>(14,506,711)</u>
Net Position - End of Year				<u>\$ (14,911,552)</u>

See accompanying notes to financial statements.

**Achievement House Charter School
Balance Sheet-Governmental Funds
June 30, 2017**

	General Fund
Assets	
Cash and cash equivalents	\$ 1,629,179
Local educational agencies receivable, net of allowance for doubtful accounts	180,072
Subsidies receivable	180,538
Prepaid expenses	99,186
Deposits	62,558
Total assets	\$ 2,151,533
Liabilities	
Accounts payable	\$ 254,319
Local educational agencies payable	374,016
Accrued expenses	777,155
Deferred rent	23,778
Total liabilities	1,429,268
Fund Balances	
Nonspendable	161,744
Assigned	1,000,000
Unassigned	(439,479)
Total fund balances	722,265
	\$ 2,151,533

See accompanying notes to financial statements.

**Achievement House Charter School
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2017**

Total Fund Balance for Governmental Funds	\$	722,265
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Computer equipment	3,294,914	
Furniture and fixtures	171,397	
Vehicles	13,136	
Leasehold improvements	83,518	
Accumulated depreciation and amortization	<u>(3,356,235)</u>	
		206,730

Long-term liabilities that pertain to governmental funds 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. Long-term liabilities at year end consist of:

Net pension liability	(13,033,000)
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Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows related to pensions	3,458,453
Deferred inflows related to pensions	<u>(6,266,000)</u>

Total Net Position of Governmental Activities	\$	<u>(14,911,552)</u>
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**Achievement House Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balance-
Governmental Funds
Year Ended June 30, 2017**

	General Fund
Revenues	
Local education agency assistance	\$ 7,147,190
Federal sources	500,202
State sources	65,310
Other sources	30,228
Total revenues	7,742,930
Expenditures	
Instruction	4,210,088
Support services	3,915,336
Noninstructional services	7,952
Capital outlay	55,070
Debt service	10,123
Total expenditures	8,198,569
Expenditures in Excess of Revenues	(455,639)
Other Financing Sources	
Proceeds from the sale of building	75,000
Net Change in Fund Balance	(380,639)
Fund Balance - Beginning of Year	1,102,904
Fund Balance - End of Year	\$ 722,265

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, 2017**

Net Change in Fund Balances - Total Governmental Funds \$ (380,639)

Capital outlays and deferred charges 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 and deferred charges exceeds depreciation in the current period.

Capital outlays	55,070	
Cost of building sold, less accumulated amortization	(74,403)	
Depreciation and amortization expense	<u>(230,364)</u>	(249,697)

The governmental funds report capital leases as financing sources, while repayment of capital leases 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 leases is as follows:

Principal payments on capital lease	9,846
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Governmental funds report School pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

School pension contributions	688,487
Cost of benefits earned net of employee contributions	<u>(472,838)</u>

Change in Net Position of Governmental Activities \$ (404,841)

Achievement House Charter School

Notes to Financial Statements

June 30, 2017

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 expired June 30, 2017 and the School has timely filed their renewal application. The School continues to operate under its former charter until the Pennsylvania Department of Revenue completes the renewal process. The School and its Board of Trustees believe the charter will be renewed.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by program revenues.

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 government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. 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, 2017

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

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

The funds utilized by the School and brief descriptions of their accounting purposes are as follows:

Governmental Fund - The fund listed below is the fund through which most governmental functions are furnished.

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 position and a statement of activities. It requires the classification of net position 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 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 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 position consists of constraints placed on 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 position – This component of net position typically includes unrestricted liquid assets.

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, 2017

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (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 and security deposits 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.
- 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. The School assigned \$750,000 for future expenditures associated with rising state pension costs, \$150,000 for curriculum development and \$100,000 for technology hardware needs.
- 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.

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

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.

Concentration of Credit Risk

Periodically, the School may maintain deposits in excess of the Federal Deposit Insurance Corporation's limit of \$250,000 with financial institutions. Under Pennsylvania Act 72, financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School's accounts are covered by this Act.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the School's cash and cash equivalents is considered to be cash on hand and demand deposits.

Deferred Outflows/Inflows of Resources

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 then.

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.

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.

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

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

Capital Assets (Continued)

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 statement of net position.

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 2014, 2015, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms investments are reported at fair value.

General Information About the Pension Plan

Plan Description

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

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

Pensions (Continued)

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

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

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 (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

Member Contributions:

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

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

Pensions (Continued)

Active members who joined the System 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 System 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

Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic 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 System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

The School's contractually required contribution rate for fiscal year ended June 30, 2017 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School were \$688,487 for the year ended June 30, 2017.

Note 2 Cash and Cash Equivalents

The School's cash and cash equivalents balance at June 30, 2017, was \$1,629,179. The actual amount of cash on deposit in the School's bank accounts at June 30, 2017 was \$1,663,318. As of June 30, 2017, the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department, not in the School's name	<u>\$ 1,193,577</u>
Insured amount	<u>\$ 469,741</u>

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

Note 3 Receivables

Receivables as of June 30, 2017 consist primarily of subsidies from local, federal and state authorities. All federal and state subsidies receivables are considered collectible due to the stable condition of these programs. The School recorded a reserve of \$25,000 to provide for possible uncollectible receivables from certain school districts. The \$25,000 was applied against Local educational agency assistance revenue on the Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds and Program Revenues on the Statement of Activities for the year ended June 30, 2017.

Note 4 Capital Assets

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

	July 1, 2016	Additions	Deletions	June 30, 2017
Computer equipment	\$ 3,239,844	\$ 55,070	\$ -	\$ 3,294,914
Furniture and fixtures	171,397	-	-	171,397
Vehicle	13,136	-	-	13,136
Building	87,931	-	(87,931)	-
Leasehold improvements	83,518	-	-	83,518
	3,595,826	55,070	(87,931)	3,562,965
Accumulated depreciation & amortization	3,139,400	230,364	(13,529)	3,356,235
	\$ 456,426	\$ (175,294)	\$ (74,402)	\$ 206,730

Depreciation and amortization expense was \$230,364 for the year ended June 30, 2017.

Note 5 Line of Credit

The School has a \$1,000,000 revolving line of credit (the Line) with Centric Bank through August 30, 2018. Interest is payable at the Wall Street Journal prime rate plus .75%. The Line is secured by all assets, tangible and intangible, of the School and was unused at June 30, 2017.

Note 6 Commitments

Operating Lease Obligations

The School leases its headquarters, located in Exton Pennsylvania, for a term expiring June, 2019. The School leased multiple facilities throughout Pennsylvania under various operating leases which have either been cancelled or expired throughout the year. In addition to the basic rent, the School is/was required to pay its proportionate share of occupancy costs, utilities, and maintenance. Rent expense was \$479,225 for the year ended June 30, 2017.

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

Note 6 Commitments (Continued)

Operating Lease Obligations (Continued)

Rent expense on the long-term operating lease, which is being recognized on the straight-line basis, was \$297,505 for the year ended June 30, 2017. Rent paid was \$298,725 for the year ended June 30, 2017. The cumulative difference between rent paid and rent calculated on the straight-line basis is \$23,778 and is reflected on the statement of net position as deferred rent.

The following is a schedule of future minimum lease payments required as of June 30, 2017:

Year Ending June 30,		
2018	\$	305,838
2019		312,950
	\$	618,788

Capital Lease Obligation

Property costing \$80,229 and is fully depreciated was held under a capital lease, with interest at 9.55% per annum. Principal and interest of \$9,846 and \$277, respectively, was paid in full during the year.

Changes in capital lease obligations are as follows:

Balance, July 1, 2016	\$	9,846
Repayments of principal		(9,846)
Balance, June 30, 2017	\$	-

Interest expense on the capital lease was \$277 for the year ended June 30, 2017.

Note 7 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 \$13,033,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 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 .483% percent, which was a decrease of .0031% from its proportion measured as of June 30, 2015.

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

Note 7 Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2017, the School recognized pension expense of \$472,838. 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
Net difference between projected and actual investment earnings	\$ 726,000	\$ 6,266,000
Changes in proportions	1,538,000	-
Changes in assumptions	470,000	-
Difference between employer contributions and proportionate share of total contributions	35,966	-
Contributions subsequent to the measurement date	688,487	-
	\$ 3,458,453	\$ 6,266,000

The \$688,487 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:	
	2018	\$ (645,638)
	2019	(645,638)
	2020	(1,070,697)
	2021	(1,134,481)
	2022	420

Note 8 Changes in Actuarial Assumptions

The total pension liability as of June 30, 2016 was determined by rolling forward the System'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:

Changes in assumptions used in measurement of the Total Pension Liability beginning June 30, 2016:

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

Note 8 Changes in Actuarial Assumptions (Continued)

- The Investment Rate of Return was adjusted from 7.50% to 7.25%
- The inflation assumption was decreased from 3.0% to 2.75%
- Salary growth changed from an effective average of 5.50%, which was comprised of inflation of 3.0%, real wage growth and for merit or seniority increases of 2.50%, to an effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.

- Mortality rates were modified from the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females to the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS's experience and projected using a modified version of the MP-2015 Mortality Improvement Scale. The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the Board at its June 10, 2016 Board meeting, and were effective with the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the 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. The ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

Note 8 Changes in Actuarial Assumptions (Continued)

Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
<hr/>		
Financing (LIBOR)	-14.0%	0.5%
<hr/>		
	100%	
<hr/>		

The above was the Board's 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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 1-percentage point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School's proportionate share of the net	\$15,943,000	\$13,033,000	\$ 10,588,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

As of June 30, 2017, \$268,275 was due to the pension plan for contractually required contributions, consisting of \$247,858 and \$20,417 of employer and employee contributions, respectively.

Achievement House Charter School
Notes to Financial Statements
June 30, 2017

Note 9 Grants

The School participates in numerous 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, 2017 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 has been no significant reduction in insurance coverage of the School's policies.

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 Retirement Plan

In addition to the PSERS plan, the School provides an alternative plan for employees that do not participate in PSERS through the Achievement House Cyber Charter School 403(b) Plan. Non-PSERS employees participate from the date of employment, with a mandatory minimum contribution of 5%. The School will match the employees' contributions dollar for dollar up to 5% of their compensation. Contributions to the plan for the year ended June 30, 2017 totaled \$68,281 which consisted of \$36,137 contributed by employees and \$32,144 contributed by the School.

Required Supplementary Information

**Achievement House Charter School
Governmental Fund Budgetary Comparison Schedule
Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		Actual Revenues/ Expenditures	Variance With Budget
	Original	Final		
Revenues				
Local educational agency assistance	\$ 6,932,500	\$ 6,932,500	\$ 7,147,190	\$ 214,690
Federal sources	510,000	510,000	500,202	(9,798)
State sources	-	-	65,310	65,310
Other sources	17,000	17,000	30,228	13,228
Total revenues	<u>7,459,500</u>	<u>7,459,500</u>	<u>7,742,930</u>	<u>283,430</u>
Expenditures				
Instruction	3,635,069	3,635,069	4,210,088	(575,019)
Support service	3,679,431	3,679,431	3,915,336	(235,905)
Noninstructional services	15,000	15,000	7,952	7,048
Capital outlay	130,000	130,000	55,070	74,930
Debt service	-	-	10,123	(10,123)
Total expenditures	<u>7,459,500</u>	<u>7,459,500</u>	<u>8,198,569</u>	<u>(739,069)</u>
Expenditures in Excess of Revenue	-	-	(455,639)	(455,639)
Other Financing Sources				
Proceeds from sale of building	-	-	75,000	(75,000)
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>(380,639)</u>	<u>(380,639)</u>
Fund Balance, Beginning	<u>1,102,904</u>	<u>1,102,904</u>	<u>1,102,904</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 1,102,904</u>	<u>\$ 1,102,904</u>	<u>\$ 722,265</u>	<u>\$ (380,639)</u>

See accompanying notes to financial statements.

**Achievement House Charter School
Schedule of the School's Proportionate Share of the Net
Pension Liability**

Last 10 Fiscal Years*

	6/30/2016	6/30/2015	6/30/2014	6/30/2013
School's proportion of the net pension liability	0.0263%	0.0425%	0.0445%	0.0355%
School's proportionate share of the net pension liability	\$ 13,033,000	\$ 18,409,000	\$ 17,614,000	\$ 14,532,000
School's covered-employee payroll	\$ 3,405,398	\$ 5,474,017	\$ 5,672,312	\$ 4,561,478
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.72%	336.30%	310.53%	318.58%
Plan fiduciary net position as a percentage of the total pension liability	50.14%	54.36%	57.24%	54.49%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

See accompanying notes to financial statements.

**Achievement House Charter School
Schedule of School Contributions
Pension Plan**

Last 10 Fiscal Years*

	6/30/2017	6/30/2016	6/30/2015
Contractually required contribution	\$ 688,487	\$ 849,396	\$ 1,060,757
Contributions in relation to the contractually required contribution	<u>688,487</u>	<u>849,396</u>	<u>1,060,757</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,357,832	\$ 3,405,398	\$ 5,474,017
Contributions as a percentage of covered-employee payroll	29.20%	24.94%	19.38%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

See accompanying notes to financial statements.

**Achievement House Charter School
Notes to Required Supplementary Information
Year Ended June 30, 2017**

Note 1 Changes in Benefit Terms

None.

Note 2 Changes in Assumptions

None.

Other Reports Required By Government Auditing Standards

**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
Achievement House Charter School
Exton, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, 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, 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 February 14, 2018.

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 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.

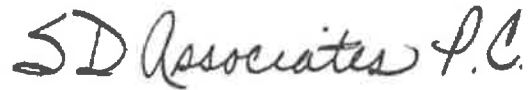
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 of the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "SD Associates P.C.".

Certified Public Accountants
Elkins Park, Pennsylvania

February 14, 2018