

Achievement House Charter School
Financial Statements
And
Independent Auditor's Report
Year Ended June 30, 2014

Achievement House Charter School
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Year Ended June 30, 2014

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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, 2014, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2015, 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.



Certified Public Accountants
Elkins Park, Pennsylvania

February 10, 2015

Achievement House Charter School

Management's Discussion and Analysis

June 30, 2014

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, 2014. 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 \$1,231,506. This balance was the result of a \$233,649 surplus for the year ended June 30, 2014.
- The School's cash balance at June 30, 2014 was \$270,306, representing a decrease of \$77,030 from June 30, 2013.
- The School's revenue from the local school districts increased approximately \$2,045,874 from the year ended June 30, 2013.
- The School incurred and settled various legal actions during the year (see Note 11).
- The School's unused \$1,000,000 line of credit expires February 25, 2015 (see Note 5).

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). 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, 2014

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 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.

	2014	2013
Assets		
Other assets	\$ 2,784,727	\$ 2,198,749
Capital assets, net	812,717	888,799
	3,597,444	3,087,548
Liabilities	1,599,401	1,262,115
Net Position	\$ 1,998,043	\$ 1,825,433

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, assets exceeded liabilities by \$1,998,043 as of June 30, 2014, an increase of \$172,610 from June 30, 2013.

The School's revenues are predominately local school district's funds based on the student enrollment. For the year ended June 30, 2014, the School's total revenues of \$13,293,383 exceeded expenditures of \$13,120,773 by \$172,610, an increase of \$830,872 as compared to the preceding year.

**Achievement House Charter School
Management's Discussion and Analysis
June 30, 2014**

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

	<u>2014</u>	<u>2013</u>
Revenues		
Program revenues		
Local educational agency assistance	\$ 12,304,004	\$ 10,258,130
Other local sources	5,824	-
State sources	549,741	272,786
Federal sources	433,814	425,079
Total revenues	<u>13,293,383</u>	<u>10,955,995</u>
Expenditures		
Instruction	6,238,802	5,570,953
Support services	6,339,109	5,361,376
Noninstructional services	37,260	46,876
Depreciation and amortization	500,403	635,052
Interest expense	5,199	-
Total expenditures	<u>13,120,773</u>	<u>11,614,257</u>
Change in net position	172,610	(658,262)
Net position, beginning	<u>1,825,433</u>	<u>2,483,692</u>
Net position, ending	<u>\$ 1,998,043</u>	<u>\$ 1,825,430</u>

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 \$1,231,506.

Budget Variations

The actual revenues represent a decrease from budgeted revenues of \$1,298,591 due mainly to a decrease in local educational agency assistance of \$1,282,075.

Actual expenditures decreased \$1,174,178 from the budget, due mainly to increases in support services of \$635,760 and capital outlay of \$129,977 and debt service of \$17,433 and decreases in instructional services of \$1,532,537, noninstructional services of \$12,740 and capital outlays of \$284,902.

Achievement House Charter School Management's Discussion and Analysis June 30, 2014

Capital Assets

As of June 30, 2014, the School's investment in capital assets for its governmental activities totaled \$812,717 (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 \$388,931 for computer equipment
- Capital expenditures of \$35,391 for furniture and fixtures

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 decrease by approximately \$460,000 for fiscal year 2014-2015, due to the anticipated closing of two satellite facilities.

Future Events that will Financially Impact the School

The School has not committed but always looks for opportunities to add more student centers across the State. This will generally require initial investments of staff, facility, and materials.

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 Position
June 30, 2014

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 270,306
Federal subsidies receivable	41,532
State subsidies receivable	184,929
Local subsidies receivable	2,097,493
Prepaid expenses	101,031
Total current assets	2,695,291
Deposits	89,436
Capital assets, net	812,717
	3,597,444
Liabilities	
Current liabilities	
Accounts payable	150,174
Accrued expenses	1,383,972
Deferred rent	19,075
Capital lease obligation, current portion	16,544
Total current liabilities	1,569,765
Long-term portion, capital lease obligation	29,636
	1,599,401
Net Position	
Invested in capital assets, net	766,537
Unrestricted	1,231,506
	\$ 1,998,043

See accompanying notes to financial statements.

Achievement House Charter School
Balance Sheet-Governmental Fund
June 30, 2014

	General Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 270,306
Federal subsidies receivable	41,532
State subsidies receivable	184,929
Local subsidies receivable	2,097,493
Prepaid expenses	101,031
Total current assets	2,695,291
Security deposit	89,436
	\$ 2,784,727
Liabilities	
Current Liabilities	
Accounts payable	\$ 150,174
Accrued expenses	1,383,972
Deferred rent	19,075
Total current liabilities	1,553,221
Fund Balance	
Nonspendable	190,467
Unassigned	1,041,039
Total fund balances	1,231,506
	\$ 2,784,727

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, 2014**

Total Fund Balance for Governmental Funds		\$ 1,231,506
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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:

Leasehold improvements	83,518	
Building	87,931	
Furniture and fixtures	171,397	
Vehicle	13,136	
Computers	2,917,257	
Accumulated depreciation and amortization	<u>(2,460,522)</u>	
		812,717

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 position. Balances at year end are:

Capital lease obligation		<u>(46,180)</u>
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Total Net Position of Governmental Activities		<u>\$ 1,998,043</u>
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Achievement House Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balance-
Governmental Funds
Year Ended June 30, 2014

	General Fund
Revenues	
Program revenues	
Local educational agency assistance	\$ 12,304,004
Other sources	5,824
State sources	549,741
Federal sources	433,814
Total revenues	13,293,383
Expenditures	
Instruction	6,238,802
Support service	6,339,109
Noninstructional services	37,260
Capital outlay	424,322
Debt service	20,241
Total expenditures	13,059,734
Net Change in Fund Balance	233,649
Fund Balance - Beginning of Year	997,857
Fund Balance - End of Year	\$ 1,231,506

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, 2014**

Net Change in Fund Balances - Total Governmental Funds \$ 233,649

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	424,322	
Depreciation and amortization	<u>(500,403)</u>	(76,081)

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 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 the capital lease is as follows:

Principal payments on capital lease obligation	<u>15,042</u>	
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Change in Net Position of Governmental Activities \$ 172,610

Achievement House Charter School

Notes to Financial Statements

June 30, 2014

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

Fund Financial Statements:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 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, 2014

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 position, a statement of activities. It requires the classification of net position into three components – invested in capital assets, net; 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 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 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, 2014

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*. 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.

- 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, 2014

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.

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 statement of net position.

Achievement House Charter School
Notes to Financial Statements
June 30, 2014

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 2011, 2012 and 2013 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, 2014 was \$270,306. The actual amount of cash on deposit in the School's bank accounts at June 30, 2014 was \$465,245. Of the amount held at the bank, \$250,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and \$215,245 was uninsured and uncollateralized as of June 30, 2014.

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, 2014 consist primarily of subsidies from federal, state, and local authorities. All receivables are considered collectible due to the stable condition of the programs.

Note 4 Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	July 1, 2013	Additions	Deletions	June 30, 2014
Computer equipment	\$ 2,528,326	\$ 388,931	\$ -	\$ 2,917,257
Furniture and fixtures	136,006	35,391	-	171,397
Vehicle	13,136	-	-	13,136
Building	87,931	-	-	87,931
Leasehold improvements	83,518	-	-	83,518
	2,848,917	424,322	-	3,273,239
Less: accumulated depreciation & amortization	1,960,119	500,403		2,460,522
	\$ 888,798	\$ (76,081)	\$ -	\$ 812,717

Depreciation and amortization expense for the year ended June 30, 2014 was \$500,403.

Achievement House Charter School
Notes to Financial Statements
June 30, 2014

Note 5 Bank Line of Credit

The School has a \$1,000,000 revolving line of credit (the Line) with Penn Liberty Bank (the Bank). The entire Line was available at June 30, 2014 and interest is payable at the Wall Street Journal prime rate plus 1%, with a 4.5% interest rate floor. The Line is secured by all assets, tangible and intangible, of the School. The Line is due February 28, 2015.

Note 6 Funding

The School receives funding from various local school districts throughout Pennsylvania 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 \$616,556 for the year ended June 30, 2014.

Rent expense on the two new long-term operating leases, which are being recognized on the straight-line basis, was \$391,886 for the year ended June 30, 2014. Rent paid was \$376,488 for the year ended June 30, 2014. The cumulative difference between rent paid and rent calculated on the straight-line basis is \$19,075 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, 2014:

Year Ending June 30,	
2015	\$ 383,600
2016	390,713
2017	373,050
2018	305,838
2019	312,950
	\$ 1,766,151

Capital Lease Obligations

Property costing \$80,229 with a net book value of \$45,950 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, 2014:

Achievement House Charter School
Notes to Financial Statements
June 30, 2014

Note 7 Commitments (Continued)

Capital Lease Obligations (Continued)

	Principal	Interest	Total
	\$ 16,544	\$ 3,698	\$ 20,242
	18,195	2,047	20,242
	11,441	8,801	20,242
	\$ 46,180	\$ 14,546	\$ 60,726

Changes in capital lease obligations are as follows:

Balance, July 1, 2013	\$ 61,222
Additions	-
Repayments of principal	(15,042)
Balance, June 30, 2014	\$ 46,180

Interest expense on capital leases was \$5,199 for the year ended June 30, 2014.

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.

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% - 12.30% depending upon classification and elections of employees. The School's contribution is 16.93%. 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 \$941,816, \$592,363 and \$326,792, for the years ended June 30, 2014, 2013, and 2012, respectively, which equals 100% of the contractually required contribution as set by State statutes.

Achievement House Charter School
Notes to Financial Statements
June 30, 2014

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, 2014 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.

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.

In July 2013, a settlement agreement was negotiated between the School and three students (all siblings) regarding the educational services that were provided to those students. The settlement of \$44,000 is included in accrued expenses at June 30, 2014.

During the year, a local school district filed suit against the School seeking reimbursement of \$96,652 in disputed payments made by the Pennsylvania Department of Education (PDE) to the School for students enrolled and residing in the school district. On October 14, 2014 the matter was settled with the School making a \$55,000 payment to the school district in exchange for a full release of all claims and discontinuance of further PDE action. The settlement of \$55,000 is included in accrued expenses.

Supplementary Information

**Achievement House Charter School
Governmental Fund Budgetary Comparison Schedule
Year Ended June 30, 2014**

	Budget	Actual Revenues/ Expenditures	Variance With Budget
Revenues			
Local educational agency assistance	\$ 13,586,079	\$ 12,304,004	\$ (1,282,075)
Other sources	45,000	5,824	(39,176)
State sources	525,015	549,741	24,726
Federal sources	435,880	433,814	(2,066)
Total revenues	<u>14,591,974</u>	<u>13,293,383</u>	<u>(1,298,591)</u>
Expenditures			
Instruction	7,771,339	6,238,802	1,532,537
Support service	5,703,349	6,339,109	(635,760)
Noninstructional services	50,000	37,260	12,740
Capital outlay	709,224	424,322	284,902
Debt service	-	20,241	(20,241)
Total expenditures	<u>14,233,912</u>	<u>13,059,734</u>	<u>1,174,178</u>
Net Change in Fund Balance	358,062	233,649	(124,413)
Fund Balance, Beginning	<u>997,857</u>	<u>997,857</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 1,355,919</u>	<u>\$ 1,231,506</u>	<u>\$ (124,413)</u>

See accompanying notes to financial statements.

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, 2014 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 10, 2015.

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 dark ink that reads "SD Associates P.C." in a cursive, slightly slanted font.

Certified Public Accountants
Elkins Park, Pennsylvania

February 10, 2015