

Achievement House Charter School

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

Year Ended June 30, 2016

**Achievement House Charter School
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Year Ended June 30, 2016**

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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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

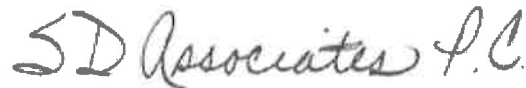
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 December 15, 2016, 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

December 15, 2016

Achievement House Charter School Management's Discussion and Analysis June 30, 2016

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, 2016. 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, 2016 total PSERS pension liability calculated to be \$18,409,000 (see Note 11).
- Total revenues decreased by approximately \$2,768,000 due mainly to decreases in local education agency assistance of \$2,790,000.
- At the close of the current fiscal year, the School reports an ending general fund balance of \$1,102,904. This balance was the result of a \$72,863 surplus for the year ended June 30, 2016.
- The School's unrestricted cash balance at June 30, 2016 was \$2,624,978, representing an increase of \$1,132,588 from June 30, 2015.

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, 2016

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.

	2016	2015
Assets		
Current assets	\$ 3,091,471	\$ 2,702,052
Capital assets, net	456,426	631,497
	3,547,897	3,333,549
 Deferred Outflows of Resources	 3,144,804	 4,003,991

**Achievement House Charter School
Management's Discussion and Analysis
June 30, 2016**

Government-Wide Financial Analysis (Continued)

Liabilities		
Current liabilities	1,998,412	1,701,646 restated
Long-term liabilities	<u>18,409,000</u>	<u>17,614,000</u>
	<u>20,407,412</u>	<u>19,315,646</u>
 Deferred Inflows of Resources	 <u>792,000</u>	 <u>1,259,000</u>
 Net Position	 <u>\$ (14,506,711)</u>	 <u>\$(13,237,106) restated</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 exceeded assets by \$14,506,711 as of June 30, 2016, an increase of \$1,269,605 from June 30, 2015.

The School's revenues are predominately local school district's funds based on the student enrollment. For the year ended June 30, 2016, the School's total expenditures of \$9,753,603 exceeded revenues of \$8,483,998 by \$1,269,605, a decrease of \$341,114 as compared to the preceding year.

	<u>2016</u>	<u>2015</u>
Revenues		
Program revenues		
Local educational agency assistance	\$ 7,805,511	\$ 10,595,179
State sources	79,173	31,848
Federal sources	587,734	614,457
General revenues		
Other sources	<u>11,580</u>	<u>10,467</u>
Total revenues	<u>8,483,998</u>	<u>11,251,951</u>
 Expenditures		
Instruction	4,475,310	6,012,288 restated
Support services	4,994,152	6,412,548
Noninstructional services	14,588	22,673
Depreciation and amortization	267,413	411,465
Interest expense	<u>2,140</u>	<u>3,696</u>
Total expenditures	<u>9,753,603</u>	<u>12,862,670 restated</u>
 Change in net position	 (1,269,605)	 (1,610,719) restated
Net position, beginning	<u>(13,237,106)</u>	<u>(11,626,387)</u>
Net position, ending	<u>\$ (14,506,711)</u>	<u>\$(13,237,106) restated</u>

**Achievement House Charter School
Management's Discussion and Analysis
June 30, 2016**

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 \$1,102,904.

Budget Variations

The actual revenues represent an increase from budgeted revenues of \$63,498 due mainly to a decrease in school district revenue of approximately \$35,000 net of Federal and State source increases of approximately \$107,000.

Actual expenditures decreased \$645,312 from the budget due to increases (decreases) as follows:

Instructional services	\$ (240,896)
Support services	101,224
Noninstructional services	(16,162)
Capital outlay	(511,409)
Debt service	21,931
	<u>\$ (645,312)</u>

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, the School's investment in capital assets for its governmental activities totaled \$456,426 (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 \$92,341.

Long-Term Debt

The School has a capital lease obligation of \$9,845 as of June 30, 2016. 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, 2016

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 2015-2016 for fiscal year 2015-2016 due to a stable enrollment.

The fiscal and operational stability of our Commonwealth's charter schools is directly linked to the State of Pennsylvania's Budget and shifting political realities. This issue manifests itself most clearly in the way that the state determines each charter school's per pupil allotment which is calculated by student's school district of residence and form PDE-363. The PDE 363 uses a "state-determined" formula to calculate per pupil allotments. Though the charter school concept is widely recognized as a viable and necessary educational model, the issue concerning how charter school are funded will likely remain controversial in the foreseeable future.

The school has an alternative 403(b) retirement plan for all new hires as of July 2016. Employees hired before this date continue to participate in PSERS. The school will realize significant expense savings with the alternative retirement plan, a 5% employer match, in comparison to the PSERS employer contribution of 30% for fiscal year 2016-2017.

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. Any change in the state law regarding funding would almost certainly decrease cyber charter funding.

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, 2016

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,624,978
Local educational agencies receivable	152,269
Subsidies receivable	164,114
Prepaid expenses	87,552
Property and equipment, net	456,426
Deposits	62,558
Total assets	3,547,897
Deferred Outflows of Resources	
Deferred outflows related to pensions	3,144,804
Liabilities	
Accounts payable	180,696
Local educational agencies payable	730,204
Accrued expenses	1,055,465
Deferred rent	22,202
Capital lease obligation, current portion	9,845
Net pension liability	18,409,000
Total liabilities	20,407,412
Deferred Inflows of Resources	
Deferred inflows related to pensions	792,000
Net Position	
Invested in capital assets, net of related debt	446,581
Unrestricted	(14,953,292)
Total net position	\$ (14,506,711)

See accompanying notes to financial statements.

Achievement House Charter School
Statement of Activities
June 30, 2016

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities				
Instruction	\$ 4,475,310	\$ 3,601,871	\$ 651,907	\$ (221,532)
Support services	4,994,152	4,203,640	15,000	(775,512)
Noninstructional services	14,588	-	-	(14,588)
Depreciation and amortization	267,413	-	-	(267,413)
Interest expense	2,140	-	-	(2,140)
Total governmental activities	<u>\$ 9,753,603</u>	<u>\$ 7,805,511</u>	<u>\$ 666,907</u>	<u>(1,281,185)</u>
General Revenues				
Other revenues				<u>11,580</u>
Change in net position				(1,269,605)
Net Position - Beginning of Year (Restated)				<u>(13,237,106)</u>
Net Position - End of Year				<u>\$ (14,506,711)</u>

See accompanying notes to financial statements.

**Achievement House Charter School
Balance Sheet-Governmental Funds
June 30, 2016**

	General Fund
Assets	
Cash and cash equivalents	\$ 2,624,978
Local educational agencies receivable, net of allowance for doubtful accounts	152,269
Subsidies receivable	164,114
Prepaid expenses	87,552
Deposits	62,558
Total assets	\$ 3,091,471
Liabilities	
Accounts payable	\$ 180,696
Local educational agencies payable	730,204
Accrued expenses	1,055,465
Deferred rent	22,202
Total liabilities	1,988,567
Fund Balances	
Nonspendable	150,110
Assigned	1,000,000
Unassigned	(47,206)
Total fund balances	1,102,904
	\$ 3,091,471

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, 2016**

Total Fund Balance for Governmental Funds	\$ 1,102,904
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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	3,239,844	
Furniture and fixtures	171,397	
Vehicles	13,136	
Building	87,931	
Leasehold improvements	83,518	
Accumulated depreciation and amortization	<u>(3,139,400)</u>	
		456,426

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:

Capital lease obligation		(9,845)
Net pension liability		<u>(18,409,000)</u>

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		3,144,804
Deferred inflows related to pensions		<u>(792,000)</u>

Total Net Position of Governmental Activities	\$ <u>(14,506,711)</u>
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Achievement House Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balance-
Governmental Funds
Year Ended June 30, 2016

	General Fund
Revenues	
Local education agency assistance	\$ 7,805,511
Federal sources	587,734
State sources	79,173
Other sources	11,580
Total revenues	8,483,998
Expenditures	
Instruction	3,821,875
Support services	4,460,400
Noninstructional services	14,588
Capital outlay	92,341
Debt service	21,931
Total expenditures	8,411,135
Net Change in Fund Balance	72,863
Fund Balance - Beginning of Year (Restated)	1,030,041
Fund Balance - End of Year	\$ 1,102,904

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, 2016**

Net Change in Fund Balances - Total Governmental Funds	\$ 72,863
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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	92,341	
Depreciation and amortization expense	<u>(267,413)</u>	(175,072)

The governmental funds report note proceeds as financing sources, while repayment of note principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. The net effect of these differences in the treatment of notes payable is as follows:

Principal payments on long-term debt	19,791
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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	858,325	
Cost of benefits earned net of employee contributions	<u>(2,045,512)</u>	

Change in Net Position of Governmental Activities	<u>\$ (1,269,605)</u>
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Achievement House Charter School
Notes to Financial Statements
June 30, 2016

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 renews every five years and will expire June 30, 2017.

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.

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.

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

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

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

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.

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:

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

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

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

Fund Balances - Governmental Funds (Continued)

- 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, 2016

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.

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.

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

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

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

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.

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

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

Pensions (Continued)

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:

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 member's qualifying compensation.

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

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

Pensions (Continued)

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, 2016 was 20.50% 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 \$849,396 for the year ended June 30, 2016.

Note 2 Cash and Cash Equivalents

The School's cash and cash equivalents balance at June 30, 2016, was \$2,624,978. The actual amount of cash on deposit in the School's bank accounts at June 30, 2016 was \$2,648,072. As of June 30, 2016 \$2,398,072 was uninsured and collateralized by the pledging bank.

Note 3 Receivables

Receivables as of June 30, 2016 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 \$65,000 to provide for possible uncollectible receivables from certain school districts. The \$65,000 was applied against Local 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, 2016.

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

Note 4 Capital Assets

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

	July 1, 2015	Additions	Deletions	June 30, 2016
Computer equipment	\$ 3,147,503	\$ 92,341	\$ -	\$ 3,239,844
Furniture and fixtures	171,397	-	-	171,397
Vehicle	13,136	-	-	13,136
Building	87,931	-	-	87,931
Leasehold improvements	83,518	-	-	83,518
	3,503,485	92,341	-	3,595,826
Accumulated depreciation & amortization	2,871,987	267,413	-	3,139,400
	\$ 631,498	\$ (175,072)	\$ -	\$ 456,426

Depreciation and amortization expense was \$267,413 for the year ended June 30, 2016.

Note 5 Line of Credit

The School had a \$1,000,000 revolving line of credit with Penn Liberty Bank which expired in February 2016. During September 2016, the School executed a \$1,000,000 revolving line of credit (the Line) with Centric Bank. 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, 2016. The Line is subject to review on an annual basis to be scheduled no later than March 31, 2017.

Note 6 Commitments

Operating Lease Obligations

The School leases multiple facilities in Pennsylvania, including two 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 \$561,505 for the year ended June 30, 2016.

Rent expense on the two long-term operating leases, which are being recognized on the straight-line basis, was \$390,397 for the year ended June 30, 2016. Rent paid was \$390,347 for the year ended June 30, 2016. The cumulative difference between rent paid and rent calculated on the straight-line basis is \$22,202 and is reflected on the statement of net position as deferred rent.

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

Note 6 Commitments (Continued)

Operating Lease Obligations (Continued)

The following is a schedule of future minimum lease payments required as of June 30, 2016:

Year Ending June 30,	
2017	\$ 365,613
2018	305,838
2019	312,950
	\$ 984,401

Capital Lease Obligation

Property costing \$80,229 with a net book value of \$13,859 is held under a capital lease, with interest at 9.55% per annum. Principal and interest of \$9,845 and \$277, respectively, is payable through January, 2017.

Changes in capital lease obligations are as follows:

Balance, July 1, 2015	\$ 29,636
Repayments of principal	(19,791)
Balance, June 30, 2016	\$ 9,845

Interest expense on capital leases was \$2,140 for the year ended June 30, 2016.

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

At June 30, 2016, the School reported a liability of \$18,409,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the School's proportion was .0425% percent, which was an increase of 0.002% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$2,045,513. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 37,000
Differences between expected and actual experience		\$ 76,000
Changes in proportions	2,253,000	679,000
Difference between employer contributions and proportionate share of total contributions	33,479	-
Contributions subsequent to the measurement date	858,325	-
	\$ 3,144,804	\$ 792,000

The \$858,325 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2017	\$ 451,076
2018	451,076
2019	451,076
2020	140,517
2021	734

Actuarial Assumptions

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

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

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

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

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

Actuarial Assumptions (Continued)

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
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	100%	

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, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the 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.

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

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

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School's proportionate share of the net pension liability	\$22,691,000	\$18,409,000	\$ 14,810,000

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, 2016 \$363,947 was due to the pension plan for contractually required contributions, consisting of \$345,550 and \$18,397 of employer and employee contributions, respectively.

Note 8 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, 2016 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 9 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.

Achievement House Charter School
Notes to Financial Statements
June 30, 2016

Note 10 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 11 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, 2016 totaled \$5,174, which consisted of \$2,587 contributed by employees and \$2,587 contributed by the School.

Note 12 Prior Period Adjustment

During the year, the School determined that contractually unused vacation payroll was not accrued at June 30, 2015 in the amount of \$112,081. Accordingly, this amount was adjusted to restate accrued payroll, net position and fund balance as of the beginning of the year.

Required Supplementary Information

**Achievement House Charter School
Governmental Fund Budgetary Comparison Schedule
Year Ended June 30, 2016**

	<u>Budgeted Amounts</u>		Actual	Variance With Budget
	Original	Final	Revenues/ Expenditures	
Revenues				
Local educational agency assistance	\$ 7,840,500	\$ 7,840,500	\$ 7,805,511	\$ (34,989)
Federal sources	560,000	560,000	587,734	27,734
State sources		-	79,173	79,173
Other sources	20,000	20,000	11,580	(8,420)
Total revenues	<u>8,420,500</u>	<u>8,420,500</u>	<u>8,483,998</u>	<u>63,498</u>
Expenditures				
Instruction	4,062,771	4,062,771	3,821,875	240,896
Support service	4,359,176	4,359,176	4,460,400	(101,224)
Noninstructional services	30,750	30,750	14,588	16,162
Capital outlay	603,750	603,750	92,341	511,409
Debt service	-	-	21,931	(21,931)
Total expenditures	<u>9,056,447</u>	<u>9,056,447</u>	<u>8,411,135</u>	<u>645,312</u>
Net Change in Fund Balance	<u>(635,947)</u>	<u>(635,947)</u>	<u>72,863</u>	<u>708,810</u>
Fund Balance, Beginning	<u>1,142,122</u>	<u>1,142,122</u>	<u>1,142,122</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 506,175</u>	<u>\$ 506,175</u>	<u>\$ 1,214,985</u>	<u>\$ 708,810</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*

	6/30/2015	6/30/2014	6/30/2013
School's proportion of the net pension liability	0.0425%	0.0445%	0.0355%
School's proportionate share of the net pension liability	\$ 18,409,000	\$ 17,614,000	\$ 14,532,000
School's covered-employee payroll	\$ 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	336.30%	310.53%	318.58%
Plan fiduciary net position as a percentage of the total pension liability	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*

	6/30/2016	6/30/2015
Contractually required contribution	\$ 849,396	\$ 1,060,757
Contributions in relation to the contractually required contribution	<u>849,396</u>	<u>1,060,757</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 3,292,294	\$ 5,474,017
Contributions as a percentage of covered-employee payroll	25.80%	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.

**Achievement House Charter School
Notes to Required Supplementary Information
Year Ended June 30, 2016**

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, 2016 and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon, dated December 15, 2016.

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

December 15, 2016