



PENN HILLS CHARTER SCHOOL OF ENTREPRENEURSHIP

Financial Statements

June 30, 2014 and 2013

The report accompanying these financial statements was issued by

BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.



**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Financial Statements

June 30, 2014 and 2013

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	2
Balance Sheets	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to the Financial Statements	8 - 15



Tel: 412-281-2501
Fax: 412-471-1996
www.bdo.com

339 Sixth Avenue, 8th Floor
Pittsburgh, PA 15222

Independent Auditor's Report

**To the Board of Directors
Penn Hills Charter School of Entrepreneurship
Verona, Pennsylvania**

We have audited the accompanying financial statements of Penn Hills Charter School of Entrepreneurship (the School), which comprise the balance sheet as of June 30, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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.

Auditor's Responsibility (Continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Penn Hills Charter School of Entrepreneurship as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2013 financial statements of Penn Hills Charter School of Entrepreneurship were audited by other auditors, whose report dated February 20, 2014 expressed an unmodified opinion on those statements.

BDO USA, LLP

Pittsburgh, Pennsylvania

February 3, 2015

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Balance Sheets

June 30	2014	2013
ASSETS		
Current Assets		
Cash	\$ 1,424,367	\$ 614,400
Tuition and accounts receivable - net	1,236,271	1,600,488
Prepaid expenses	<u>30,312</u>	<u>-</u>
Total Current Assets	2,690,950	2,214,888
Non-current Assets		
Property and equipment - net - Note 3	<u>126,344</u>	<u>157,451</u>
Total Assets	<u>\$ 2,817,294</u>	<u>\$ 2,372,339</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Note payable - related party - current portion - Note 6	\$ 5,212	\$ 11,189
Accounts payable and accrued expenses	293,185	342,515
Accrued payroll and related liabilities - Note 4	335,791	266,273
Due to related party - Notes 5 and 6	<u>649,263</u>	<u>662,000</u>
Total Current Liabilities	<u>1,283,451</u>	<u>1,281,977</u>
Non-current Liabilities		
Due to related party - Notes 5 and 6	-	468,037
Note payable - related party - net of current portion - Note 6	<u>232,668</u>	<u>237,880</u>
Total Non-current Liabilities	<u>232,668</u>	<u>705,917</u>
Total Liabilities	1,516,119	1,987,894
Total Net Assets	<u>1,301,175</u>	<u>384,445</u>
Total Liabilities and Net Assets	<u>\$ 2,817,294</u>	<u>\$ 2,372,339</u>

The accompanying notes are an integral part of these financial statements.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Statements of Activities and Changes in Net Assets

For the Years Ended June 30	2014	2013
Revenue and Support		
Tuition and fees	\$ 4,555,316	\$ 3,963,570
Contributions	10,610	886
Government grants - Note 4	366,313	189,263
Other income	5,975	1,588
Total Revenue and Support	<u>4,938,214</u>	<u>4,155,307</u>
Expenses		
Program Services		
Education	2,340,434	2,212,395
Food service	264,277	272,021
Total Program Services	2,604,711	2,484,416
Supporting Services		
Management and general	1,416,773	1,224,951
Total Expenses	<u>4,021,484</u>	<u>3,709,367</u>
Increase in Net Assets	916,730	445,940
Net Assets (Deficit) - Beginning of year	<u>384,445</u>	<u>(61,495)</u>
Net Assets - End of year	<u>\$ 1,301,175</u>	<u>\$ 384,445</u>

The accompanying notes are an integral part of these financial statements.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Statement of Functional Expenses

For the Year Ended June 30, 2014

	<u>Program Expenses</u>		Management and General	Total Program Expenses
	<u>Education</u>	<u>Food Services</u>		
Salaries and benefits	\$ 1,552,148	\$ 75,584	\$ 379,456	\$ 2,007,188
Management fee - Note 5	-	-	592,586	592,586
Contracted services	139,267	178,164	14,407	331,838
Rent - Note 7	93,443	3,222	9,667	106,332
Utilities	33,956	1,171	3,513	38,640
Legal fees	-	-	66,742	66,742
Books, periodicals and supplies	184,844	1,322	83,283	269,449
Professional fees	242,235	-	88,958	331,193
Insurance	11,604	400	1,200	13,204
Repairs and maintenance	37,690	1,300	3,899	42,889
Miscellaneous	10,913	134	144,292	155,339
Interest	-	-	25,306	25,306
Depreciation	34,334	2,980	3,464	40,778
	<u>\$ 2,340,434</u>	<u>\$ 264,277</u>	<u>\$ 1,416,773</u>	<u>\$ 4,021,484</u>

The accompanying notes are an integral part of these financial statements.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Statement of Functional Expenses

For the Year Ended June 30, 2013

	<u>Program Expenses</u>		Management and General	Total Program Expenses
	<u>Education</u>	<u>Food Services</u>		
Salaries and benefits	\$ 1,367,636	\$ 57,822	\$ 197,790	\$ 1,623,248
Management fee - Note 5	-	-	488,526	488,526
Loss mitigation fee - Note 5	-	-	101,776	101,776
Contracted services	132,227	184,334	4,543	321,104
Rent - Note 7	247,012	17,644	35,287	299,943
Utilities	52,611	3,758	7,516	63,885
Legal fees	-	-	146,845	146,845
Books, periodicals and supplies	166,046	3,422	67,157	236,625
Professional fees	192,846	-	107,972	300,818
Insurance	16,303	1,164	2,329	19,796
Repairs and maintenance	2,653	189	379	3,221
Miscellaneous	3,443	155	34,599	38,197
Interest	-	-	25,773	25,773
Depreciation	31,618	3,533	4,459	39,610
	<u>\$ 2,212,395</u>	<u>\$ 272,021</u>	<u>\$ 1,224,951</u>	<u>\$ 3,709,367</u>

The accompanying notes are an integral part of these financial statements.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Statements of Cash Flows

For the Years Ended June 30	2014	2013
Cash Provided by (Used for) Operating Activities		
Increase in net assets	\$ 916,730	\$ 445,940
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation and amortization	40,778	39,610
Provision for bad debts	-	117,500
Changes in		
Tuition and accounts receivable	364,217	(1,057,340)
Prepaid expenses	(30,312)	-
Accounts payable and accrued expenses	73,896	267,188
Accrued payroll and related liabilities	69,518	(33,793)
Deferred revenue	-	(77,569)
Net Cash Provided by (Used for) Operating Activities	<u>1,434,827</u>	<u>(298,464)</u>
Cash Used for Investing Activities		
Purchase of property and equipment	<u>(9,671)</u>	<u>(40,375)</u>
Cash Provided by (Used for) Financing Activities		
Due to related party - advances and accrued interest	-	666,075
Due to related party - payments - Note 5	(604,000)	(50,000)
Payments on note payable	<u>(11,189)</u>	<u>-</u>
Net Cash Provided by (Used for) Financing Activities	<u>(615,189)</u>	<u>616,075</u>
Net Increase in Cash and Cash Equivalents	809,967	277,236
Cash and Cash Equivalents - Beginning of year	<u>614,400</u>	<u>337,164</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,424,367</u>	<u>\$ 614,400</u>

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest	<u>\$ 66,310</u>	<u>\$ -</u>
--	------------------	-------------

The accompanying notes are an integral part of these financial statements.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements

Note 1 - Organization

Penn Hills Charter School of Entrepreneurship (the School), a Pennsylvania Charter School, is a public school operated under a charter granted by the Penn Hills Board of School Directors. The charter was approved on April 26, 2011 and is effective until June 30, 2016.

The School's mission is to provide a world-class education for the students in the Penn Hills community - a school that will not only prepare students academically but to develop into informed and responsible world citizens, creative problem solvers, and effective communicators.

Note 2 - Summary of Significant Accounting Policies

A. Basis of Accounting

The financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

B. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

C. Cash

At June 30, 2014 and 2013, the School's cash was on deposit with one large financial institution and exceeded the Federal Deposit Insurance Corporation limit. The School believes it has placed these temporary cash investments with a high credit quality financial institution and does not believe it is exposed to any significant credit risk.

D. Tuition and Accounts Receivable

Tuition and accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for tuition and accounts receivable was approximately \$223,000 at June 30, 2014 and \$118,000 at June 30, 2013.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

E. Revenue Recognition

Revenue is recognized when earned. Tuition revenue represents the tuition paid by various Allegheny County school districts for the students enrolled in the School who reside with that particular school district. Revenues from tuition and fees are reported in the fiscal year in which educational programs are conducted. Tuition revenues received in advance of the year to which they relate are deferred.

As of June 30, 2014, approximately 63% of the School's tuition revenue is received from Penn Hills School District, with approximately 61% of outstanding tuition receivable. As of June 30, 2013, approximately 66% of the School's tuition revenue was received from Penn Hill School District, with approximately 33% of outstanding tuition receivable.

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. As of June 30, 2014 and 2013, the School had no temporarily restricted or permanently restricted net assets.

F. Property and Equipment

Expenditures for additions and improvements are capitalized and are stated at cost.

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

Depreciation of property and equipment is provided by the straight-line method over the estimated useful lives of the assets. The lives used in computing depreciation range from 5 to 7 years.

Maintenance and repairs which are not considered to extend the useful lives of assets are charged to operations as incurred.

Upon sale or retirement, the cost of assets and related allowances are removed from the accounts and any gains or losses are included in income (expense) for the year.

G. Books, Periodicals and Supplies

The School expenses its books, periodicals and supplies as they are purchased.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

H. Expense Allocation

The costs of providing the School's various program services are presented on a functional basis in the statements of activities and changes in net assets, and functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based on the allocation of full-time employee classifications and the space utilized per the School building.

I. Income Taxes

As of June 30, 2014, the School was in the process of applying for a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (IRC). On July 3, 2014, the School's application for tax exempt status was accepted, and the School is now exempt from Federal income tax pursuant to Section 501(c)(3) of the IRC.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the School may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the School and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years 2014 and 2013.

J. Consideration of Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through February 3, 2015, the day the financial statements were approved and authorized for issue.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements (Continued)

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Furniture, fixtures and office equipment	\$196,738	\$187,065
Leasehold improvements	<u>43,199</u>	<u>43,199</u>
	239,937	230,264
Less: Accumulated depreciation	(<u>113,593</u>)	(<u>72,813</u>)
	<u>\$126,344</u>	<u>\$157,451</u>

Note 4 - Public School Employees' Retirement System (PSERS)

Plan Description

Substantially all full-time and part-time employees of the School participate in the Public School Employees' Retirement System (PSERS), a cost sharing, multiemployer public employee retirement system. The Employer Identification Number of PSERS is 27-3920298. The PSERS provides retirement and disability benefits, legislative mandated ad hoc cost of living adjustments, and health care insurance premium assistance to qualifying annuitants. The PSERS was established under the Public School Employees' Retirement Code (Code). The PSERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by making a request in writing to the Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125. The report is also available in the publications section of the PSERS site on the internet, www.psers.state.pa.us. PSERS is not subject to the benefit accrual and participation requirements of the Employee Retirement Income Security Act of 1974 (ERISA). As a result, certain multiemployer plan disclosures, including the certified zone status, are not applicable to PSERS.

Funding Policy

Contributions are required by active members, school districts, and the Commonwealth of Pennsylvania as established by the Public School Employees' Retirement Board in accordance with the Code. Active members who joined the system prior to July 22, 1983 must contribute 5¼% (Membership Class TC) or 6½% (Membership Class TD) of their salaries, and 6¼% or 7½% of their salaries if they were hired afterwards. Members who joined PSERS after June 30, 2001 contribute at 7½%. For all new hires or those who elected to do so, the higher contribution rates began with service rendered on or after January 1, 2002.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements (Continued)

Note 4 - Public School Employees' Retirement System (PSERS) (Continued)

Schools must contribute at rates based upon an actuarial valuation. The rate of employer contribution was 16.93% for fiscal year ended June 30, 2014 and 12.36% for fiscal year ended June 30, 2013. The contribution rate for school districts will increase to 21.31% for fiscal year 2015.

The risks of participating in multiemployer plans are different from single-employer plans in the following aspects:

- a) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be required to be assumed by the remaining participating employers.
- c) If the School chooses to stop participating in any of its multiemployer plans, it may be required to pay those plans a withdrawal amount based on the underfunded status of the plan, referred to as a withdrawal liability.

PSERS operates on a fiscal year from July 1 through June 30. The following table presents certain financial information about PSERS from the most recent actuarial certification as of June 30:

	<u>2013</u>	<u>2012</u>
Total plan assets	\$57,400,000,000	\$58,200,000,000
Present value of accumulated plan benefits	\$90,000,000,000	\$87,800,000,000
Underfunded plan assets	\$32,600,000,000	\$29,600,000,000
Funded status	64%	66%

Total contributions to this plan were approximately \$219,000 in fiscal year June 30, 2014 and \$160,000 in fiscal year June 30, 2013. In accordance with Act 29, the Commonwealth of Pennsylvania reimburses school districts for at least one-half of contributions made to PSERS. The School received a reimbursement of \$143,112 in fiscal year June 30, 2014 and \$81,784 in fiscal year June 30, 2013.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements (Continued)

Note 5 - Related Parties

On June 28, 2013, the School and Imagine Schools, Inc. (Imagine) entered into a Charter School Administrative Services Agreement (Administrative Services Agreement) for Imagine to provide certain school management services for the School. From the commencement of School operations through to date of the signed Administrative Services Agreement, a disagreement existed between the School and Imagine as to whether the parties had entered into a valid and binding operating agreement in May 2011 to organize and operate the School (the Disputed Operating Agreement). Under the terms of the Administrative Services Agreement:

- The School pays Imagine an indirect cost allocation fee equal to 12% of the School's revenue as defined by the Administrative Services Agreement. These fees totaled \$592,586 for 2014 and \$488,526 for 2013. Approximately \$419,000 as of June 30, 2014 and \$711,000 as of June 30, 2013 is payable to Imagine related to the indirect cost allocation fee and is included in due to related party.
- Approximately \$416,000 in start-up and development costs were paid by Imagine on behalf of the School in 2012. Imagine is entitled to repayment of the development allocation paid to the School of \$250,000 (Note 6). The balance of \$166,000 was recorded as a contribution in fiscal year June 30, 2012.
- The School is able to request advances from Imagine to pay for operating expenses of the School and, as of June 30, 2014 and 2013, an outstanding balance for advances received is \$230,000 and is included in due to related party.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements (Continued)

Note 5 - Related Parties (Continued)

Under the terms of the Disputed Operating Agreement, there was an additional annual fee related to the operating advances requested by the School:

- In consideration of Imagine's commitment to make operating advances under the terms of the Disputed Operating Agreement, the School was to pay Imagine a loss mitigation allocation fee of 2½% of revenue for 2013. The loss mitigation fee totaled \$101,776 for 2013. Approximately \$148,000 is payable to Imagine related to the loss mitigation allocation fee and is included in due to related party as of June 30, 2013. There were no loss mitigation allocation fees charged to the School for the year ended June 30, 2014 and no amount is payable to Imagine for these fees at June 30, 2014.

In conjunction with the finalization of the Administrative Services Agreement, the School and Imagine entered into a Payment Agreement and Mutual Release (Payment Agreement). Through the Payment Agreement, the School is required to make the following payments: \$140,000 payment on June 30, 2013; thirteen payments of \$58,000 paid on the last day of each month beginning October 2013 and ending October 2014; a payment of \$45,111 on or before December 31, 2014 provided the amount of this payment shall be adjusted if necessary if the revenue of the School for the fiscal year ended June 30, 2013 is greater or less than \$3,608,820; a make-up payment on or before December 31, 2014 only to the extent that the payment amount does not exceed 30% of revenues of the School during the preceding month; a payment of \$130,000 on or before December 31, 2014. Payments are expected provided that the School's expenditures for the fiscal year do not exceed the approved budgeted expenditures by more than 5% and the amounts collected during such fiscal year with respect to unpaid amounts from the school districts are less than amounts projected to be collected by more than \$200,000, the parties will negotiate to modify the payments.

Included in the Payment Agreement is the provision that if the School made all scheduled payments to Imagine before December 31, 2014 and is current on lease payments owed to Schoolhouse Finance, LLC, Imagine would forgive and not require the final payment of \$130,000. On December 19, 2014, the School made the final scheduled payment to Imagine. Accordingly, the School will recognize a gain of \$130,000 for the year ending June 30, 2015.

The School also has entered into a lease agreement with Schoolhouse Finance, LLC, a wholly owned subsidiary of Imagine, for the School's building (Note 7).

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements (Continued)

Note 6 - Note Payable

As part of the Administrative Services Agreement with Imagine, a development allocation was provided to the School in order to facilitate the start-up of the School. The original principal amount of the note was \$250,000. Pursuant to the Administrative Service Agreement, the note is to be repaid at an interest rate of 10½ % over 20 years at \$2,500 per month.

Approximate future maturities of the note payable consistent with the Administrative Services Agreement are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2015	\$ 5,000
2016	6,000
2017	6,000
2018	7,000
2019	8,000
Thereafter	<u>206,000</u>
	<u>\$238,000</u>

The School incurred interest expense of approximately \$25,000 for 2014 and \$26,000 for 2013. Accrued interest, recorded in due to related parties, was approximately \$41,000 as of June 30, 2013. There was no accrued interest on the note as of June 30, 2014.

Note 7 - Leases

The lease agreement for the School building commenced on August 24, 2011 and will continue until June 30, 2016, but automatically terminates upon the termination or non-renewal of the School's charter. Lease expense was approximately \$106,000 for the year ended June 30, 2014. For 2013, lease expense included \$104,000 for the School's building as well as rental expense related to lease of modular units utilized during the school year ended June 30, 2013 of \$195,000. The annual amounts of lease payments required are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2015	\$109,000
2016	<u>112,000</u>
	<u>\$221,000</u>