

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Financial Statements

June 30, 2012

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Financial Statements

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Independent Auditors' Report

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

We have audited the accompanying balance sheet of Penn Hills Charter School of Entrepreneurship (the School) as of June 30, 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



February 28, 2013

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Balance Sheet

June 30	2012
ASSETS	
Current Assets	
Cash	\$ 337,164
Tuition and accounts receivable	<u>660,648</u>
Total Current Assets	<u>997,812</u>
Non-current Assets	
Property and equipment - net - Note 3	<u>156,686</u>
Total Assets	<u><u>\$ 1,154,498</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Note payable - related party - current portion - Note 6	\$ 6,495
Deferred revenue	77,569
Accrued payroll and related liabilities - Note 4	300,066
Accounts payable and accrued expenses - Note 5	344,058
Due to related party - Notes 5 and 6	<u>245,231</u>
Total Current Liabilities	<u>973,419</u>
Non-current Liabilities	
Note payable - related party - net of current portion - Note 6	<u>242,574</u>
Total Liabilities	1,215,993
Total Net Deficit	<u>(61,495)</u>
Total Liabilities and Net Deficit	<u><u>\$ 1,154,498</u></u>

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

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Statement of Activities and Changes in Net Assets

For the Year Ended June 30	2012
Revenue and Support	
Tuition and fees	\$ 2,500,726
Contributions - Note 5	176,214
Government grants	78,755
Other income	1,150
	<u>2,756,845</u>
Total Revenue and Support	
Expenses	
Program Services	
Education	1,805,838
Food service	204,115
	<u>2,009,953</u>
Total Program Services	
Supporting Services	
Management and general	808,387
	<u>808,387</u>
Total Expenses	
	<u>2,818,340</u>
Decrease in Net Assets	
	(61,495)
Net Assets - Beginning of year	<u>-</u>
Net Deficit - End of year	<u>\$ (61,495)</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, 2012

	<u>Program Expenses</u>		Management and General	Total Program Expenses
	<u>Education</u>	<u>Food Services</u>		
Salaries and benefits	\$ 1,087,126	\$ 40,124	\$ 186,454	\$ 1,313,704
Management fee - Note 5	-	-	309,476	309,476
Loss mitigation fee - Note 5	-	-	64,474	64,474
Contracted services	158,646	149,084	5,881	313,611
Rent - Note 7	73,073	2,811	11,242	87,126
Utilities	39,361	1,514	6,055	46,930
Legal fees	-	-	98,687	98,687
Books, periodicals and supplies	262,424	8,332	53,357	324,113
Professional fees	104,859	-	38,804	143,663
Insurance	20,968	806	3,226	25,000
Repairs and maintenance	3,679	141	566	4,386
Miscellaneous	27,853	-	4,311	32,164
Interest	-	-	21,801	21,801
Depreciation	27,849	1,303	4,053	33,205
	<u>\$ 1,805,838</u>	<u>\$ 204,115</u>	<u>\$ 808,387</u>	<u>\$ 2,818,340</u>

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

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Statement of Cash Flows

For the Year Ended June 30	2012
Cash Provided by (Used for) Operating Activities	
Decrease in net assets	\$ (61,495)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	33,205
Allowance for doubtful accounts	26,000
Changes in	
Tuition and accounts receivable	(686,648)
Accounts payable	344,058
Deferred revenue	77,569
Accrued payroll and related liabilities	<u>300,066</u>
Net Cash Provided by Operating Activities	<u>32,755</u>
Cash Used for Investing Activities	
Purchase of property and equipment	<u>(189,891)</u>
Cash Provided by (Used for) Financing Activities	
Due to related party - advances and accrued interest	445,231
Due to related party - payments	(200,000)
Note payable proceeds	250,000
Payments on note payable	<u>(931)</u>
Net Cash Provided by Financing Activities	<u>494,300</u>
Net Increase in Cash and Cash Equivalents	337,164
Cash and Cash Equivalents - Beginning of year	<u>-</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 337,164</u></u>

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest	<u><u>\$ 6,570</u></u>
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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. This is the School's initial year of operation.

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, 2012, 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 \$26,000 at June 30, 2012.

**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. Deferred revenue primarily consists of advances received to be earned in the subsequent school year.

Approximately 65% of the School tuition revenue is received from the Penn Hills School District. Approximately 42% of tuition receivables outstanding is due from the Penn Hills School District as of June 30, 2012.

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, 2012, 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.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements (Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

G. Books, Periodicals and Supplies

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

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

The School is in the process of applying for a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. The School has received extensions from the Internal Revenue Service (IRS) to submit additional information requested by the IRS for its application of tax-exempt status.

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 year 2012.

J. Consideration of Subsequent Events

Management evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through February 28, 2013, 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>2012</u>
Furniture, fixtures and office equipment	\$146,692
Leasehold improvements	<u>43,199</u>
	189,891
Less: Accumulated depreciation	(<u>33,205</u>)
	<u>\$156,686</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, multi-employer public employee retirement system. 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.

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.

Schools must contribute at rates based upon an actuarial valuation. For the fiscal year ended June 30, 2012, the rate of employer contribution was 8.65%. The contribution rate for school districts will increase 12.36% for fiscal year 2013 and 16.93% for fiscal year 2014.

**PENN HILLS CHARTER SCHOOL
OF ENTREPRENEURSHIP**

Notes to the Financial Statements (Continued)

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

The School has accrued their contribution of approximately \$90,000 which was equal to its required contribution for the year. This amount is included in accrued payroll and related liabilities as of June 30, 2012. In accordance with Act 29, the Commonwealth of Pennsylvania reimburses school districts for at least one-half of contributions made to PSERS.

Note 5 - Related Parties

A disagreement exists between the School and Imagine Schools, Inc. (Imagine) as to whether the parties entered into a valid and binding operating agreement to organize and operate the School (the "Disputed Operating Agreement"). Under the terms of the Disputed Operating Agreement:

- The School would pay Imagine a management fee equal to 12% of the School's revenue as defined by the Operating Agreement. For 2012, the management fee totaled \$309,476. At June 30, 2012, approximately \$222,000 was payable to Imagine related to the management fee and is included in accounts payable and accrued expenses.
- The School would be able to request advances from Imagine to pay for operating expenses of the School. These advances may accrue interest at the prime rate. In consideration of Imagine's commitment to make such advances under the terms of the Operating Agreement, the School will pay Imagine a loss mitigation allocation fee based on a percentage of revenue, 2½% for 2012. Through the loss mitigation program, Imagine would forgive 90% of unpaid operating advances over \$250,000 on an annual basis or 90% of the cumulative loss in excess of \$500,000 up to a maximum forgiveness of \$1,800,000 (\$2,500,000 cumulative loss). As of June 30, 2012, there is \$230,000 of operating advances and the advances due to the related party. The disputed loss mitigation allocation fee totaled \$64,474. At June 30, 2012, approximately \$46,000 was payable to Imagine related to the disputed loss mitigation fee and is included in accounts payable and accrued expenses.
- Approximately \$416,000 in start-up and development costs were paid by Imagine on behalf of the School. Imagine will be 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.

The School and Imagine are currently negotiating in good faith to execute a new mutually beneficial operating agreement.

The School also has entered into lease agreements 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 Disputed Operating Agreement with Imagine, a development allocation was provided to the School in order to facilitate the start-up of the School. The principal amount of the note was \$250,000. Pursuant to the Disputed Operating 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 Disputed Operating Agreement are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2013	\$ 6,000
2014	5,000
2015	5,000
2016	6,000
2017	6,000
Thereafter	<u>221,000</u>
	<u>\$249,000</u>

The School incurred interest expense of approximately \$21,000 for 2012. Accrued interest, recorded in due to related parties, was approximately \$15,000 as of June 30, 2012.

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 \$87,000 for the year ended June 30, 2012. The annual amounts of lease payments required are as follows:

Year Ending <u>June 30</u>	<u>Amount</u>
2013	\$102,000
2014	102,000
2015	102,000
2016	<u>102,000</u>
	<u>\$408,000</u>