

**RICHARD ALLEN PREPARATORY
CHARTER SCHOOL
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

DRAFT - for discussion purposes only

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
YEAR ENDED JUNE 30, 2017**

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**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The Board of Trustees of Richard Allen Preparatory 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 year ended June 30, 2017. We encourage readers to consider the information presented herein in conjunction with the School's financial statements.

Financial Highlights

- Total governmental revenues for the year ended June 30, 2017 were \$6,241,896, representing an increase of \$500,124 from the year ended June 30, 2016.
- At June 30, 2017, the School reported an ending governmental fund balance of \$1,858,251, representing a decrease of \$1,791 from June 30, 2016.
- The School's cash balance at June 30, 2017, was \$664,493, representing an increase of \$321,821 from June 30, 2016.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's financial statements as presented comprise four components: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) the required supplementary information, and (4) the single audit section.

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 and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two 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 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. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. expenditures accrued in one year but paid in subsequent years, and depreciation).

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. The School's function is to provide an alternative educational opportunity.

Richard Allen Development and Improvement Organization ("RADIO") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that RADIO is legally separate from the School.

Fund Financial Statements

A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental-type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has one fund type: the governmental general fund.

See independent auditor's report.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Overview of the Financial Statements (Continued)

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 funds budgetary comparison schedule, schedule of the School's proportionate share of the net pension liability and schedule of School contributions are required supplementary information presented for purposes of additional analysis and are prepared using a basis consistent with accounting principles generally accepted in the United States of America ("GAAP") for state reporting requirements.

Single Audit Requirements

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance").

Government-Wide Financial Analysis

	June 30,	
	2017	2016
Current assets	2,802,682	\$ 2,858,808
Capital assets	353,763	360,386
Total assets	3,156,445	3,219,194
Deferred outflows of resources	1,629,694	935,708
Current liabilities	799,451	863,028
Noncurrent liabilities	9,118,000	8,619,000
Total liabilities	9,917,451	9,482,028
Deferred inflows of resources	599,000	53,000
Net position		
Net investment in capital assets	353,763	360,386
Unrestricted	(6,084,075)	(5,740,512)
Total net position	\$ (5,730,312)	\$ (5,380,126)

As noted previously, net position may serve over time as a useful indicator of a school's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$5,730,312 as of June 30, 2017.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Overview of the Financial Statements (Continued)

Government-Wide Financial Analysis (Continued)

The School's revenues are predominately received from the School District of Philadelphia based on student enrollment. For the year ended June 30, 2017, the School's expenditures of \$6,592,082 exceeded its revenues of \$6,241,896 by \$350,186.

	<u>Year ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 1,853,607	\$ 2,027,938
General revenues:		
Grants and contributions not restricted to specific programs	4,310,091	4,023,697
Miscellaneous	<u>78,198</u>	<u>2,145</u>
Total general revenues	<u>4,388,289</u>	<u>4,025,842</u>
Total revenues	<u>6,241,896</u>	<u>6,053,775</u>
Expenditures:		
Other instructional programs	3,185,182	3,054,585
Pupil personnel services	345,403	224,369
Instructional staff services	301,527	341,695
Administrative services	878,260	863,433
Pupil health	67,024	65,153
Business services	94,416	91,974
Operation and maintenance of plant services	936,539	931,264
Other support services	377,113	333,948
Food services	277,082	262,430
Student activities	83,045	80,888
Depreciation expense	<u>46,491</u>	<u>48,945</u>
Total expenditures	<u>6,592,082</u>	<u>6,298,684</u>
Change in net position	(350,186)	(244,909)
Net position - beginning	<u>(5,380,126)</u>	<u>(5,135,217)</u>
NET POSITION - ENDING	<u><u>\$ (5,730,312)</u></u>	<u><u>\$ (5,380,126)</u></u>

Governmental Fund

The focus of the School's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the year.

The general fund is the chief operating fund of the School. At the end of the current year, the committed fund balance of the general fund was \$1,275,000 and the total governmental fund balance was \$1,858,251.

See independent auditor's report.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

General Fund Budgetary Highlights

Over the course of the year, the School revised its annual operating budget several times. These budget amendments consisted of changes made within budgetary line items for programs, supplies and equipment. There were no formal budget amendments made that were required to be submitted to the State of Pennsylvania.

Capital Assets and Debt Administration

Capital Assets

Primary Government

As of June 30, 2017, the School's net investment in capital assets for its governmental activities and business-type activities totaled \$353,763 (net of accumulated depreciation). This net investment in capital assets includes leasehold improvements, furniture and equipment and software for the School.

Component Unit

As of June 30, 2017, RADIO's capital assets totaled \$4,392,372 (net of accumulated depreciation). Capital assets include land, building and building improvements.

Long-Term Debt

Primary Government

There was no debt related to the School as of June 30, 2017.

Component Unit

At June 30, 2017, RADIO has bonds payable totaling \$4,500,000 that is secured by the assets of RADIO.

Economic Factors and Next Year's Budgets and Rates

The School does not foresee any substantial variations with next year's economic factors, budgets, or rates.

Future Events That Will Financially Impact the School

The School does not foresee any future events at this time that will financially impact the School.

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: Chief Executive Officer, Richard Allen Preparatory Charter School, 2601 S. 58th Street, Philadelphia, PA 19143.

Component Unit

Complete financial statements of RADIO can be obtained at 2601 S. 58th Street, Philadelphia, PA 19143.

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Component Unit
ASSETS		
Cash	\$ 664,493	\$ 91,210
Restricted cash	-	1,044,591
State subsidies receivable	107,657	-
Federal subsidies receivable	221,133	-
Local receivables	392,804	-
Due from related party	670,764	-
Other receivable	61,036	-
Prepaid expenses	69,771	-
Prepaid rent	598,357	-
Security deposit	16,667	-
Capital assets:		
Land	-	400,000
Building and improvements	-	5,527,898
Leasehold improvements	580,288	-
Furniture and equipment	375,835	-
Software	37,088	-
Less: accumulated depreciation	<u>(639,448)</u>	<u>(1,535,526)</u>
Total assets	<u>3,156,445</u>	<u>5,528,173</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to pension	<u>1,629,694</u>	<u>-</u>

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See accompanying notes to financial statements.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2017**

	<u>Governmental Activities</u>	<u>Component Unit</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 119,791	\$ 46,497
Salaries and benefits payable	483,007	-
Due to other governments	196,653	-
Due to related party	-	670,765
Long-term obligations:		
Due within one year:		
Bonds payable	-	175,000
Deferred rental income	-	37,397
Due beyond one year:		
Bonds payable		4,132,866
Deferred rental income		560,961
Pension liability	<u>9,118,000</u>	<u>-</u>
Total liabilities	<u>9,917,451</u>	<u>5,623,486</u>
Commitments and contingencies (Notes 6, 7, 8, 9, 10, 11, 12, and 13)		
DEFERRED INFLOWS OF RESOURCES		
Related to pension	<u>599,000</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	353,763	-
Unrestricted	<u>(6,084,075)</u>	<u>(95,313)</u>
Total net position	<u>\$ (5,730,312)</u>	<u>\$ (95,313)</u>

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See accompanying notes to financial statements.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for services	Operating Grants and Contributions	Governmental Activities	Component Unit
Primary government					
Governmental activities:					
Other instructional programs	\$ 3,185,182	\$ -	\$ 1,543,409	\$ (1,641,773)	\$ -
Pupil personnel services	345,403	-	-	(345,403)	-
Instructional staff services	301,527	-	-	(301,527)	-
Administrative services	878,260	-	-	(878,260)	-
Pupil health	67,024	-	9,480	(57,544)	-
Business services	94,416	-	-	(94,416)	-
Operation and maintenance of plant services	936,539	-	73,624	(862,915)	-
Other support services	377,113	-	-	(377,113)	-
Food services	277,082	-	227,094	(49,988)	-
Student activities	83,045	-	-	(83,045)	-
Depreciation expense (Note 5)	46,491	-	-	(46,491)	-
Total governmental activities	<u>\$ 6,592,082</u>	<u>\$ -</u>	<u>\$ 1,853,607</u>	<u>(4,738,475)</u>	<u>-</u>
Component unit:					
Richard Allen Development and Improvement Organization	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>(563,647)</u>
General revenues:					
Local educational agencies				4,310,091	-
Rental income				-	491,293
Other revenue				78,198	398
Total general revenues				<u>4,388,289</u>	<u>491,691</u>
Change in net position				(350,186)	(71,956)
Net position - beginning				<u>(5,380,126)</u>	<u>(23,357)</u>
NET POSITION - ENDING				<u><u>\$ (5,730,312)</u></u>	<u><u>\$ (95,313)</u></u>

See accompanying notes to financial statements.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2017**

		<u>General Fund</u>
<u>ASSETS</u>		
Cash	\$	664,493
State subsidies receivable		107,657
Federal subsidies receivable		221,133
Local receivables		392,804
Due from related party		670,764
Other receivables		61,036
Prepaid expenses		69,771
Prepaid rent		598,357
Security deposit		<u>16,667</u>
TOTAL ASSETS		<u>\$ 2,802,682</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities		
Accounts payable and accrued expenses	\$	119,791
Salaries and benefits payable		627,987
Due to other governments		<u>196,653</u>
Total liabilities		<u>944,431</u>
Fund balance		
Committed		1,275,000
Unassigned		<u>583,251</u>
Total fund balance		<u>1,858,251</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 2,802,682</u>

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See accompanying notes to financial statements.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2017**

Total fund balance for the governmental fund \$ 1,858,251

Total net position reported for governmental activities in the statement of net position is different because:

Long-term liabilities that pertain to the governmental fund, including notes payable and net pension obligations, 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. Those liabilities consist of:

Net pension liability, net of required contractual liability	(8,973,020)
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Capital assets used in the governmental fund are not financial resources and therefore are not reported as assets in the governmental fund. Those assets consist of:

Leasehold improvements	580,288	
Furniture and equipment	375,835	
Software	37,088	
Less: accumulated depreciation	(639,448)	
		353,763

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental fund. Balances at year end are:

Deferred outflows of resources related to pensions	1,629,694	
Deferred inflows of resources related to pensions	(599,000)	
		1,030,694

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (5,730,312)**

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**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND
BALANCE OF THE GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>
Revenues:	
Local educational agencies	\$ 5,238,837
Other sources	78,198
State sources	152,823
Federal sources	772,038
Total revenues	6,241,896
Expenditures:	
Instruction	2,990,853
Support services	2,891,274
Non-instructional services	321,692
Capital outlay	39,868
Total expenditures	6,243,687
Net change in fund balance	(1,791)
Fund balance - beginning	1,860,042
FUND BALANCE - ENDING	\$ 1,858,251

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**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
RECONCILIATION OF REVENUES, EXPENDITURES AND CHANGES IN THE
FUND BALANCE OF THE GOVERNMENTAL FUND TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Net change in fund balance - total governmental fund \$ (1,791)

Amounts reported for governmental activities in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense, as follows:

Capital outlay	39,868	
Depreciation expense	(46,491)	
	(6,623)	(6,623)

The governmental fund reports school pension contributions as expenditures. However, in the statement of activities, the cost incurred for future pension benefits is reported as pension expense, as follows:

School pension contribution	(877,000)	
Cost of benefits earned net of employee contributions	535,228	
	(341,772)	(341,772)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (350,186)**

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RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Richard Allen Preparatory 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 "Act"), and is operating under the terms of a charter school contract that expired in 2010 (see Note 11). The School is located in Philadelphia, Pennsylvania. During the 2016-2017 school year, the School served children in grades 5 through 8.

The School has financial accountability and control over all activities related to the students' education. The School receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. The reporting entity of the School is based upon criteria set forth by Governmental Accounting Standards Board ("GASB") Statements No. 14, 39, and 61. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the School and its discretely presented component unit. The School is not a component unit of another reporting entity. The decision to include a potential component unit in the School's reporting entity is based on several criteria, including legal standing, fiscal dependency and financial accountability. As described below, the School has identified a component unit.

Component Unit

Richard Allen Development and Improvement Organization ("RADIO" or the "Foundation") is a legally separate, tax-exempt component unit of the School. RADIO was organized to acquire and construct the School's facilities. Although the School does not control the timing or amounts of receipts from RADIO, the majority of resources, and income thereon that RADIO holds are restricted to the activities of the School. Because these restricted resources held by RADIO can only be used by or for the benefit of the School, RADIO is considered a component unit of the School and is discretely presented in the School's financial statements.

Basis of Presentation

Government-wide financial statements

The statement of net position and the statement of activities display information about the School as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. The government-wide statements provide information about the primary government (the School) and its component unit, without displaying funds. These statements also distinguish between the governmental and business-type activities of the School and between the School and its discretely presented component unit. Eliminations have been made to minimize the double counting of internal activities. All of the School's activities are governmental.

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Government-wide financial statements (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School and for each function of the School's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.
- Indirect expenses are those that are related to the administration and support of the School's programs, such as personnel and accounting (but not interest on long-term debt) are allocated to programs based on their percentage of total primary government expenses. Interest expenses are allocated to the programs that manage the capital assets financed with long-term debt.
- Program revenues include charges paid by the recipients of goods or services offered by programs and grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue.

Fund financial statements

The fund financial statements provide information about the School's funds, including fiduciary funds and blended component units, if any. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of governmental and enterprise fund reporting (enterprise funds are a type of proprietary fund) is on major funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. All other funds are aggregated and reported by fund type.

The School reports the following major governmental funds:

General Fund - The general fund is the operating fund of the School and accounts for all operating revenues and expenditures of the School.

RADIO is accounted for under accounting principles generally accepted in the United States of America ("GAAP"), as applied to not-for-profit entities, and is not subject to GASB and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenue available if it is collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt, which is recognized when due. Claims, judgments and compensated absences are recognized as expenditures only to the extent they are normally expected to be paid from existing unrestricted fund net position. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing.

Under the terms of grant agreements, the School supports certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net position is available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63") classifies net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - 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 proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted - This component of net position consists of constraints placed on the use of net assets through external constraints imposed by creditors such as through debt covenants, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classification Policies and Procedures

The School follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the classification of the School's fund balance into five components: nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

- Nonspendable - This category is for amounts that can not be spent because they are either (1) not in spendable form or (2) legally or contractually required to remain intact.
- Restricted - This category is the part of the fund balance that is restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or by enabling legislation.
- Committed - This category is the portion of the fund balance that can only be used for specific purposes as a result of formal action by the School's highest level of authority.
- Assigned - This category reflects funds that the School intends to use for a specific purpose but are not considered restricted or committed.
- Unassigned - This category represents the part of the spendable fund balance that has not been categorized as nonspendable, restricted, committed or assigned.

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.

In the fund financial statements, assignments and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves are established by actions of the School's Board of Trustees and management and may be increased, reduced, or eliminated by similar actions.

Budgets and Budgetary Accounting

The School adopts an annual budget on the budgetary basis, which is consistent with GAAP for the general fund. The School is required to present the adopted and final budgeted revenues and expenditures for the general fund that were filed and accepted by the Labor, Education and Community Services Comptroller's Office. The general fund budget appears on page 34.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

Receivables primarily consist of amounts due from federal, state and local authorities. Receivables are stated at the amount management expects to collect. The School maintains an allowance for doubtful accounts for estimated losses resulting from the inability of governments to make required payments. If the financial conditions of these governments were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the School provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the School has made reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2017, no allowance has been established.

Capital Assets

Capital assets, which include leasehold improvements, furniture and equipment and software, 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 maintains a threshold level of \$2,500 or more for capitalizing assets. The School does not possess any infrastructure. The infrastructure is owned by RADIO, which is shown discretely in the accompanying financial statements. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are expensed. Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to twenty-eight years.

Deferred Outflows/Inflows of Resources

GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of net position and related disclosures. In compliance with GASB 63, the statement of net position includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Advertising Costs

All costs associated with advertising and promotions are expensed in the year incurred and totaled \$2,086 for the year ended June 30, 2017.

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Leases

The GASB issued Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases* ("GASB 13"), which establishes standards of accounting and financial reporting by state and local governmental entities for operating leases with scheduled rent increases, regardless of the fund type used to report the lease transactions. GASB 13 requires governmental entities to account for operating leases with scheduled rent increases by using the terms of the lease contract when the pattern of the payment requirements is systematic and rational. This includes lease agreements that specify scheduled rent increases over the lease term that are intended to cover economic factors relating to the property, such as the anticipated effects of cost increases or property value appreciation. If, however, an operating lease contains payment requirements in a particular year that are artificially low (for example, to ease the lessee's near-term cash flow requirements), governmental entities should measure the operating lease transactions either on a straight-line basis over the lease term or based on the estimated fair value of the rental.

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Uncertain Tax Positions

The School accounts for uncertainty in income taxes in which tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of June 30, 2017, the School had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the School had no interest or penalties related to income taxes. The School files an income tax return in the U.S. federal jurisdiction.

Pensions

The School follows Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* ("GASB 71"). Under GASB 68 and 71, 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 (the "PSERS") and additions to/deductions from the PSERS's fiduciary net position have been determined on the same basis as they are reported by the PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, and investments are reported at fair value.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Governmental Accounting Standards

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* ("GASB 80"), which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions of GASB 80 were adopted for the School's June 30, 2017, financial statements. The effect of implementation was not material to the School's financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* ("GASB 82") which addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of GASB 82 were adopted for the School's June 30, 2017 financial statements. The effect of implementation was not material to the School's financial statements.

Subsequent Events

The School has evaluated material subsequent events through XXXXXXXXXX, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 2. CASH

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School monitors custodial credit risk by periodically reviewing the Federal Deposit Insurance Corporation's ("FDIC") limits and published credit ratings of its depository bank. Accounts are insured by the FDIC up to \$250,000 for all accounts kept at one financial institution. 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 under this act.

As of June 30, 2017, the custodial risk is as follows:

	Governmental Activities
Uninsured and uncollateralized	\$ -
Collateralized	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	425,846
Total	\$ 425,846

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2. CASH (CONTINUED)

Reconciliation to the financial statements:

	Governmental Activities
Cash exposed to custodial risk	\$ 425,846
Plus: Insured amount	250,000
Less: Outstanding checks	(11,353)
	\$ 664,493

NOTE 3. RECEIVABLES

A summary of receivables follows:

	<u>Receivables</u>	Governmental Activities
Federal		\$ 221,133
State		107,657
Local		392,804
Other		61,036
		\$ 782,630

NOTE 4. LOCAL EDUCATIONAL AGENCY ASSISTANCE (REVENUE)

The School receives funding from the School District of Philadelphia and the Pennsylvania Department of Education on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis.

For non-special education students, charter schools receive for each student enrolled no less than the budgeted total expenditure per average daily membership of the prior school year as defined by the Act. For the year ended June 30, 2017, the rate was \$8,139 per year per student for the majority of students, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. Total revenue from student enrollment was \$5,238,837 for the year ended June 30, 2017.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5. CAPITAL ASSETS, NET

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

	Balance - June 30, 2016	Additions	Disposals	Balance - June 30, 2017
Leasehold improvements	\$ 578,188	\$ 2,100	\$ -	\$ 580,288
Furniture and equipment	338,067	37,768	-	375,835
Software	37,088	-	-	37,088
Less: accumulated depreciation	<u>(592,957)</u>	<u>(46,491)</u>	<u>-</u>	<u>(639,448)</u>
Capital assets, net	<u>\$ 360,386</u>	<u>\$ (6,623)</u>	<u>\$ -</u>	<u>\$ 353,763</u>

Depreciation expense for the year ended June 30, 2017, was \$46,491.

NOTE 6. LINE OF CREDIT

The School has a line of credit of \$500,000 at June 30, 2017. The line bears interest at the prime rate plus 0.75% and matures on December 31, 2016. All of the School's assets were pledged as collateral under this agreement. At June 30, 2017, there were no borrowings under the line of credit.

The School has specific financial debt covenants related to this line of credit. The covenants are not required to be tested until December 31, 2016.

NOTE 7. RELATED-PARTY ARRANGEMENTS

The School has advanced funds to RADIO in the amount of \$670,674. The advances are non-interest bearing and do not have stated repayment terms.

The School leases space from RADIO for its school facility under a 27-year lease agreement through May 2033. All costs of operating the facility, such as utilities, assessments and taxes, etc., are paid by the School.

As of June 30, 2017, the following is a schedule of approximate future minimum lease payments under the operating lease:

<u>Year ending June 30:</u>	<u>Amount</u>
2018	\$ 454,000
2019	453,000
2020	452,000
2021	452,000
2022	453,000
2023-2027	2,260,000
2028-2032	2,260,000
2033-2034	<u>451,000</u>
	<u>\$ 7,235,000</u>

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8. RICHARD ALLEN DEVELOPMENT AND IMPROVEMENT ORGANIZATION - DISCRETELY PRESENTED COMPONENT UNIT

Organization

RADIO operates as a non-profit organization established under the laws of the Commonwealth of Pennsylvania to provide public educational school facilities, including land, buildings and improvements, for the benefit of the School.

Financial Statement Presentation

RADIO follows Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, which requires RADIO to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Unrestricted net assets represent expendable funds that are available to support the operating activities of RADIO. Temporarily restricted net assets represent expendable funds that are earmarked for specific purposes. When the funds are expended, the restriction is satisfied and the funds are released from restriction. FASB ASC 958 also requires recognition of contributions, including donated services meeting certain criteria, at fair values. FASB ASC 958 establishes standards for general-purpose external financial statements for not-for-profit organizations.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

Income Tax Status

RADIO is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Uncertain Tax Positions

RADIO recognizes and measures its unrecognized tax benefits in accordance FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of June 30, 2017, RADIO had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, RADIO had no interest or penalties related to income taxes. RADIO files an income tax return in the U.S. federal jurisdiction.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8. RICHARD ALLEN DEVELOPMENT AND IMPROVEMENT ORGANIZATION - DISCRETELY PRESENTED COMPONENT UNIT (CONTINUED)

Property

Building and improvements are stated at cost, less accumulated depreciation. Expenditures for additions and betterments are capitalized; maintenance and repairs are charged to current operations as incurred. Depreciation has been calculated on such assets using the straight-line method over the following estimated lives:

Building and improvements	39 years
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Debt Issuance Costs

Debt issuance costs are amortized over the term of the related debt. At June 30, 2017, unamortized debt issuance costs of \$192,134 are presented as a reduction of "Bonds payable" in the accompanying statement of net position. Amortization expense was \$12,166 for the year ended June 30, 2017.

Recently issued accounting pronouncements

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). The update requires debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. ASU 2015-03 was effective for the year ended June 30, 2017. The adoption of ASU 2015-03 did not have a material impact on RADIO's financial statements and related disclosures.

Cash and Cash Equivalents

RADIO considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents.

Property

Property consists of the following at June 30, 2017:

Land	\$ 400,000
Building and improvements	5,527,898
Less: accumulated depreciation	<u>(1,535,526)</u>
Property, net	<u>\$ 4,392,372</u>

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8. RICHARD ALLEN DEVELOPMENT AND IMPROVEMENT ORGANIZATION - DISCRETELY PRESENTED COMPONENT UNIT (CONTINUED)

Long-Term Debt and Restricted Cash

In 2006, RADIO borrowed \$5,790,000 for the construction and improvement of a building to be used by the School as its facility. The bond, which bears interest ranging from 5.80% to 6.25%, is payable in annual payments of principal and semi-annual payments of interest. The bonds are secured by the assets of RADIO. The balance payable on the bond was \$4,500,000 at June 30, 2017. The bond matures on May 1, 2033.

Future principal requirements of long-term debt are as follows:

<u>Year Ending June 30:</u>	
2018	\$ 175,000
2019	185,000
2020	195,000
2021	205,000
2022	220,000
Thereafter	<u>3,520,000</u>
	<u>\$ 4,500,000</u>

Interest expense amounted to \$287,168 for the year ended June 30, 2017. The School has specific financial debt covenants related to this long-term debt. At June 30, 2017, all covenants were met.

RADIO also maintains several cash accounts whereby the funds are restricted pursuant to the bond issuance agreement. Total restricted cash as of June 30, 2017, was \$1,044,588, of which \$530,285 was being held for future payments of principal and interest.

Concentration of Credit Risk

RADIO places its cash, which may at times be in excess of FDIC insurance limits, with high quality financial institutions and attempts to limit the amount of credit exposure with any one institution.

400% of the total rental revenue and related escalations of RADIO for the year ended June 30, 2017, was generated from the School through direct leased property.

Related-Party Arrangements

RADIO leases its rental facility to the School under a long-term operating lease expiring May 1, 2033. Rent under the lease for the year ended June 30, 2017, was \$491,293. All costs of operating the facility, such as utilities, assessments and taxes, etc., are paid by the School.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8. RICHARD ALLEN DEVELOPMENT AND IMPROVEMENT ORGANIZATION - DISCRETELY PRESENTED COMPONENT UNIT (CONTINUED)

Related-Party Arrangements (Continued)

Approximate future minimum rentals are as follows:

<u>Year Ending June 30:</u>	
2018	\$ 454,000
2019	453,000
2020	452,000
2021	452,000
2022	452,000
Thereafter	<u>4,971,000</u>
	<u>\$ 7,235,000</u>

During 2008, the School advanced funds to RADIO of \$972,330. This amount is being recorded as rental income over the term of the lease. Additional rental income of \$37,397 was recognized during the year ended June 30, 2017. The balance of deferred rental income at June 30, 2017, is \$598,358, of which \$37,397 is expected to be recognized as rental income during the year ending June 30, 2018.

The School has advanced funds to RADIO. As of June 30, 2017, RADIO owes the School \$670,765. The advances, which do not bear interest, have no stated repayment terms.

NOTE 9. RETIREMENT PLAN

Plan Description

The School contributes to a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the PSERS (or "Teachers' Plan"), which provides retirement and disability benefits, legislative-mandated ad-hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The members eligible to participate in the PSERS include all full-time 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 the Commonwealth of Pennsylvania (the "Commonwealth"). The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 81018535) (the "Code") assigns the authority to establish and amend benefit provisions to the PSERS. The PSERS issues an annual financial report that can be obtained at www.pfers.state.pa.us.

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. RETIREMENT PLAN (CONTINUED)

Benefits Provided

The PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one 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 three 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. Retirement 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 2.0% 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

The contribution policy is established in the Code and requires contributions by active members, employers and the Commonwealth.

Member contributions are as follows:

- Active members who joined the PSERS 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 PSERS prior to, 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.

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. RETIREMENT PLAN (CONTINUED)

Contributions (Continued)

- Members who joined the PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.50% (Membership Class T-D). For all new hires and for members who elected Membership Class T-D, the higher contribution rates began with service rendered on or after January 1, 2002.
- Members who joined the PSERS after June 30, 2011, automatically contribute at the Class T-E rate of 7.50% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.30% (base rate) of the member's qualifying compensation. Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 that, in future fiscal years, could cause the Class T-E contribution rate to fluctuate between 7.50% and 9.50% and Class T-F contribution rate to fluctuate between 10.30% and 12.30%.

With the "shared risk" program, members benefit when investments of the fund are doing well and share some of the risk when investments underperform. Class T-E or T-F contribution rates stay within the specified range, but may increase or decrease by .5% within the specified range once every three years, starting July 2015. The contribution rates for these two membership classes will never go below the base rate or above the highest percentage rate.

The School's contractually required contribution rate for the fiscal year ended June 30, 2017, was 30.03% 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 for the years ended June 30, 2017 amounted to \$535,228.

NOTE 10. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2017, the School reported a liability of \$9,118,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 (beginning of the School's fiscal year), and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS's total pension liability as of June 30, 2015 to June 30, 2016. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2016, the School's proportion was 0.0184%, which was a decrease of 0.0015% from its proportion measured as of June 30, 2015.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

For the year ended June 30, 2017, the School recognized pension expense of \$834,000. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (76,000)
Changes in assumptions	329,000	-
Net difference between projected and actual investment earnings	508,000	-
Changes in proportions	204,000	(523,000)
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	588,694	-
	\$ 1,629,694	\$ (599,000)

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 ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as an increase (reduction) in pension expense as follows:

<u>Year ending June 30:</u>	
2018	\$ 98,000
2019	98,000
2020	187,000
2021	59,000
	\$ 442,000

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Actuarial Assumptions

The total pension liability as of June 30, 2016, was determined by rolling forward the PSERS's total pension liability as of the June 30, 2015 actuarial valuation to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

- 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. Rates for disabled annuitants were based on the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS's Board of Trustees at its March 11, 2011 board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Actuarial Assumptions (Continued)

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 %
Treasury inflation-protected securities	12.0 %	1.1 %
High yield bonds	9.0 %	3.3 %
Cash	3.0 %	0.7 %
Absolute return	10.0 %	4.9 %
Risk parity	10.0 %	3.7 %
Master limited partnerships/infrastructure	5.0 %	5.2 %
Commodities	8.0 %	3.1 %
Financing (LIBOR)	(14.0)%	1.1 %
	<u>100 %</u>	

The above was the PSERS's Board of Trustees's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the PSERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
The School's proportionate share of the net pension liability	\$ <u>11,154,000</u>	\$ <u>9,118,000</u>	\$ <u>7,408,000</u>

RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Pension Plan Fiduciary Net Position

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

NOTE 11. CONTINGENCIES

Grants

Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

Charter Renewal

The School is operating under the terms of a charter school contract that expired on June 30, 2010. The School submitted its charter renewal for the five-year term beginning July 1, 2010, which the School Reform Commission ("SRC") did not grant. The SRC adopted a resolution to suspend provisions of the Charter School Law which defined the legal rights of charter schools generally. On May 20, 2013, the School filed a motion for summary judgment against the School District of Philadelphia ("SDP") and the SRC. On August 27, 2015, the Pennsylvania Commonwealth court ruled in favor of the School and found that the SDP and the SRC do not have the legal right to suspend certain provisions of the Charter School Law. The School and the SRC are in negotiations to reach a signed agreement. The School continues to operate under its prior charter. Management is unable to determine the effect of the ultimate resolution of this dispute.

NOTE 12. EMPLOYEE BENEFIT PLAN

The School maintains a 403(b) plan for employees that do not participate in the PSERS retirement plan. The plan mandates that non-PSERS employees participate from the date of employment with a mandatory minimum contribution, as defined. The School will match the employees' contribution up to 5% of their compensation, as defined. Contribution expense for the plan amounted to \$52,872 for the year ended June 30, 2017.

NOTE 13. LITIGATION

The School is, from time to time, involved in claims and lawsuits incidental to its operations. In the opinion of management, as of XXXXXXXXXX, the ultimate resolution of these matters will not have an adverse effect on the financial position of the School.

REQUIRED SUPPLEMENTARY INFORMATION

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**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN THE FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local educational agencies	\$ 5,144,726	\$ 5,144,726	\$ 5,238,837	\$ 94,111
Other sources	-	-	78,198	78,198
State sources	163,462	163,462	152,823	(10,639)
Federal sources	<u>726,768</u>	<u>726,768</u>	<u>772,038</u>	<u>45,270</u>
Total revenues	<u>6,034,956</u>	<u>6,034,956</u>	<u>6,241,896</u>	<u>206,940</u>
Expenditures:				
Instruction	2,949,187	2,949,187	2,990,853	41,666
Support services	2,580,604	2,580,604	2,891,274	310,670
Non-instructional services	361,749	361,749	321,692	(40,057)
Capital outlay	<u>-</u>	<u>-</u>	<u>39,868</u>	<u>39,868</u>
Total expenditures	<u>5,891,540</u>	<u>5,891,540</u>	<u>6,243,687</u>	<u>352,147</u>
Net change in fund balance	143,416	143,416	(1,791)	(145,207)
Fund balance - beginning	<u>1,860,042</u>	<u>1,860,042</u>	<u>1,860,042</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 2,003,458</u></u>	<u><u>\$ 2,003,458</u></u>	<u><u>\$ 1,858,251</u></u>	<u><u>\$ (145,207)</u></u>

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See independent auditor's report.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHERS' PENSION PLAN
Last 10 Fiscal Years***

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
School's proportion of the net pension liability	0.0184 %	0.0199 %	0.0195 %	0.0189 %
School's proportionate share of the net pension liability \$	9,118,000	\$ 8,619,000	\$ 7,718,000	\$ 7,737,000
School's covered-employee payroll	2,378,357	2,555,719	2,485,894	2,429,360
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	383.37 %	337.24 %	310.47 %	318.48 %
Plan fiduciary net position as a percentage of the total pension liability	50.14 %	54.36 %	57.24 %	54.49 %

***Until a full 10-year trend is compiled, the School has presented information for those years for which information is available.**

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**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
SCHEDULE OF SCHOOL CONTRIBUTIONS
TEACHERS' PENSION PLAN
Last 10 Fiscal Years**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
School's contractually required contribution	\$ 714,221	\$ 595,849	\$ 552,675	\$ 414,656
School's contributions in relation to the contractually required contribution	<u>(535,228)</u>	<u>(595,849)</u>	<u>(552,675)</u>	<u>(414,656)</u>
Contribution deficiency	<u>\$ (178,993)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,378,357	\$ 2,555,719	\$ 2,485,894	\$ 2,429,360
Contributions as a percentage of covered-employee payroll	30.03 %	23.31 %	22.23 %	17.07 %

***Until a full 10-year trend is compiled, the School has presented information for those years for which information is available.**

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SINGLE AUDIT

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**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Grantor Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period		Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2017
				Beginning Date	Ending Date						
U.S. Department of Agriculture											
Passed-through the Pennsylvania Department of Education											
National School Lunch Program	(I)	10.555	362	7/1/2016	6/30/2017	N/A	\$ 172,033	\$ 60,968	\$ 152,107	\$ 152,107	\$ 41,042
School Breakfast Program	(I)	10.553	365	7/1/2016	6/30/2017	N/A	59,684	27,934	65,394	65,394	33,644
Total Child Nutrition Cluster							231,717	88,902	217,501	217,501	74,686
Total U.S. Department of Agriculture							231,717	88,902	217,501	217,501	74,686
U.S. Department of Education											
Passed-through the Pennsylvania Department of Education											
Title I Grants to LEAs	(I)	84.010	013-160899	7/29/2015	9/30/2016	322,913	\$ 45,229	\$ 45,229	\$ -	\$ -	\$ -
Title I Grants to LEAs	(I)	84.010	013-170899	9/8/2016	9/30/2017	369,414	322,216	-	369,414	369,414	47,198
School Intervention Grants	(I)	84.010	042-150899	7/29/2015	9/30/2016	66,653	8,332	8,332	-	-	-
School Intervention Grants	(I)	84.010	042-160899	4/28/2016	9/30/2017	69,832	62,073	-	69,832	69,832	7,759
21st Century Community Learning Centers	(I)	84.287	N/A	10/1/2015	9/30/2016	112,500	89,490	85,309	18,522	18,522	14,341
Improving Teacher Quality State Grants	(I)	84.367	020-160899	7/29/2015	9/30/2016	17,898	4,448	4,448	-	-	-
Improving Teacher Quality State Grants	(I)	84.367	020-170899	9/8/2016	9/30/2017	21,700	15,136	-	21,700	21,700	6,564
Title III Strengthening Institutions	(I)	84.031	010-170899	9/8/2016	9/30/2017	6,477	4,484	-	6,477	6,477	1,993
Total Passed-through the Pennsylvania Department of Education							551,408	143,318	485,945	485,945	77,855

See accompanying notes to schedule of expenditures of federal awards.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017**

Grantor Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period		Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2016	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2017
				Beginning Date	Ending Date						
U.S. Department of Education (Continued)											
Passed-through the School District of Philadelphia											
Special Education Grants to States	(I)	84.027	062-160026	7/1/2015	6/30/2016	\$ 72,140	\$ 72,140	\$ 72,140	\$ -	\$ -	\$ -
Special Education Grants to States	(I)	84.027	062-170026	7/1/2016	6/30/2017	68,592	-	-	68,592	68,592	68,592
Total Passed-through the School District of Philadelphia							72,140	72,140	68,592	68,592	68,592
Total U.S. Department of Education							623,548	215,458	554,537	554,537	146,447
Total Federal Financial Assistance							\$ 855,265	\$ 304,360	\$ 772,038	\$ 772,038	\$ 221,133

Source Code Legend:

- (D) Indicates direct funding
- (I) Indicates indirect funding

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See accompanying notes to schedule of expenditures of federal awards.

**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Richard Allen Preparatory Charter School (the "School"). The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the School's financial statements.

NOTE 3. PROGRAM CLUSTERS

In accordance with the Uniform Guidance, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555

NOTE 4. INDIRECT COST RATE

The School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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**RICHARD ALLEN PREPARATORY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on whether the financial statements of Richard Allen Preparatory Charter School (the "School") were prepared in accordance with accounting principles generally accepted in the United States of America.
2. No significant deficiencies relating to the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the School were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for the School expresses an unqualified opinion.
6. There were no audit findings that were required to be reported under section 2 CFR section 200.516(a).
7. The program tested as a major program was Title I Grants to LEAs, CFDA #84.010.
8. The threshold for distinguishing Type A and Type B programs was \$750,000.
9. The School qualifies as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

There were no financial statement findings.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

There were no findings and questioned costs for federal awards, which would include audit findings as defined in the Uniform Guidance.