

**PHILADELPHIA PERFORMING ARTS:
A STRING THEORY CHARTER SCHOOL**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School (a nonprofit organization) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of DeMedici Corporation and DeMedici II Corporation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the School adopted the provisions of GASB Statement No. 80, "*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No.14,*" and GASB Statement No. 82, "*Pension Issues – An amendment of GASB Statements No. 67, No.68 and No. 73.*" The adoption of the statements had no effect on the reported amounts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4-7 and 39-41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements. The accompanying 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*, and is not a required part of the basic financial statements.

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Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania
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The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2017, on our consideration of Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting and compliance.

Jamison, Pennsylvania
December 6, 2017

Zelenkofske Axelrod LLC
ZELENKOFKSKE AXELROD LLC

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

The Board of Trustees of Philadelphia Performing Arts: A String Theory Charter School (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 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 \$29,205,988 representing an increase of \$4,687,026 from June 30, 2016.
- At June 30, 2017, the school reported an ending governmental fund balance of \$7,356,483 representing an increase of \$298,608 from June 30, 2016.
- The School's cash and cash equivalents balance at June 30, 2017 was \$7,151,084, representing an increase of \$1,563,182 from June 30, 2016.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the School's 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 federal awards 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 liabilities, 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.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Overview of the Financial Statements (Continued)

Fund Financial Statements

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary Information

The governmental fund budgetary comparison schedule and the pension information comprise required supplementary information presented for purposes of additional analysis and is 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* (Uniform Guidance).

Government-Wide Financial Analysis

Management has adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which requires an analysis of current and prior-year balances.

	<u>2017</u>	<u>2016</u>
Current Assets	\$ 9,885,189	\$ 8,696,609
Noncurrent Assets	<u>3,893,581</u>	<u>2,771,149</u>
Total Assets	<u>13,778,770</u>	<u>11,467,758</u>
Deferred Outflows of Resources	<u>5,106,330</u>	<u>3,977,793</u>
Current Liabilities	4,214,165	2,939,460
Noncurrent Liabilities	<u>20,058,179</u>	<u>19,113,433</u>
Total Liabilities	<u>24,272,344</u>	<u>22,052,893</u>
Deferred Inflows of Resources	<u>1,386,000</u>	<u>136,382</u>
Net Position		
Net Investment in Capital Assets	2,347,804	1,165,275
Unrestricted	<u>(9,121,048)</u>	<u>(7,908,999)</u>
Total Net Position (Deficit)	<u>\$ (6,773,244)</u>	<u>\$ (6,743,724)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Overview of the Financial Statements (Continued)

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows by \$6,773,244 as of June 30, 2017.

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 \$30,283,382 exceeded its revenues of \$30,253,862 by \$29,520.

	<u>2017</u>	<u>2016</u>
Revenues		
Local Educational Agencies	\$ 25,923,893	\$ 21,769,220
Other Local Sources	341,890	554,695
State Sources	515,994	409,113
Federal Sources	2,424,211	1,785,934
Food Services	1,047,874	834,575
Total Revenues	<u>30,253,862</u>	<u>25,353,537</u>
Expenses		
Instructional Programs	15,282,927	12,091,496
Pupil Personnel Services	797,362	595,327
Instructional Staff Services	707,172	802,647
Administrative Services	3,840,291	3,575,880
Pupil Health Services	227,463	191,608
Buisness Services	556,903	477,894
Operation and Maintenance of Plant Services	6,996,715	6,219,412
Other Support Services	472,362	537,384
Student Activities	426,233	393,851
Food Services	965,028	832,137
Interest Expense	10,926	8,647
Total Expenses	<u>30,283,382</u>	<u>25,726,283</u>
Change in Net Position	(29,520)	(372,746)
Net Position (Deficit) - Beginning	<u>(6,743,724)</u>	<u>(6,370,978)</u>
Net Position (Deficit) - Ending	<u>\$ (6,773,244)</u>	<u>\$ (6,743,724)</u>

Governmental Funds

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, the fund balance may serve as a useful measure of a School'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 unassigned fund balance of the general fund was \$2,221,744, while the total general fund balance was \$7,356,483.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Overview of the Financial Statements (Continued)

General Fund Budgetary Highlights

There were no annual operating budget amendments made during the year that were required to be submitted to the Commonwealth of Pennsylvania.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2017, the School's net investment in capital assets for its total governmental activities and business-type activity totaled \$2,347,804 (net of accumulated depreciation and related debt). This net investment in capital assets includes classroom and office furniture, computers, classroom materials, student transportation vehicles and leasehold improvements.

Long-Term Debt

At June 30, 2017, the School's governmental activities and business-type activity had outstanding notes payable and capital lease obligations of \$286,079.

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, Philadelphia Performing Arts: A String Theory Charter School, 1600 Vine Street, Philadelphia, Pennsylvania 19102, or call (215) 551- 4000.

Component Units

DeMedici Corporation ("DeMedici") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that DeMedici is legally separate from the School. Complete financial statements of DeMedici can be obtained at 2600 South Broad Street, Philadelphia, Pennsylvania 19145.

DeMedici II Corporation ("DeMedici II") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that DeMedici II is legally separate from the School. Complete financial statements of DeMedici II can be obtained at 1600 Vine Street, Philadelphia, Pennsylvania 19102.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business- Type Activities	Totals	Component Unit - DeMedici	Component Unit - DeMedici II
<u>Assets</u>					
Cash and Cash Equivalents	\$ 7,151,084	\$ 47,329	\$ 7,198,413	\$ 488,798	\$ 32,984
Restricted Cash and Cash Equivalents	-	-	-	-	4,650,783
State Subsidies Receivable	395,550	5,177	400,727	-	-
Federal Subsidies Receivable	260,136	102,812	362,948	-	-
Local Subsidies Receivable	292,305	-	292,305	-	-
Other Receivables	251,132	-	251,132	-	-
Due From Other Funds	487,477	-	487,477	-	-
Due From Related Parties	6,436	-	6,436	1,361,093	-
Prepaid Expenses - Current Portion	378,175	106,711	484,886	-	-
Prepaid Expenses, Net of Current Portion	1,259,699	-	1,259,699	-	-
Inventories	400,865	-	400,865	-	-
Capital Assets:					
Land	-	-	-	-	12,376,795
Buildings and Improvements	-	-	-	2,456,570	37,820,926
Leasehold Improvements	2,164,976	-	2,164,976	-	-
Furniture and Equipment	1,350,128	405,710	1,755,838	-	2,276,912
Transportation Equipment	67,338	-	67,338	-	-
Software	948,828	-	948,828	-	-
Less: Accumulated Depreciation	(2,087,719)	(215,379)	(2,303,098)	(755,870)	(4,793,688)
Bond Issuance Costs	-	-	-	-	1,039,397
Deferred Rent	-	-	-	-	1,054,169
Total Assets	<u>13,326,410</u>	<u>452,360</u>	<u>13,778,770</u>	<u>3,550,591</u>	<u>54,458,278</u>
<u>Deferred Outflows of Resources</u>					
Related To Pensions	<u>5,106,330</u>	<u>-</u>	<u>5,106,330</u>	<u>-</u>	<u>-</u>

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2017

	Governmental Activities	Business- Type Activities	Totals	Component Unit - DeMedici	Component Unit - DeMedici II
<u>Liabilities</u>					
Accounts Payable and Accrued Expenses	1,398,078	50,412	1,448,490	175	3,375
Accrued Salary and Benefits	1,684,459	-	1,684,459	-	-
Due To General Fund	-	487,477	487,477	-	-
Due To Affiliates	11,938	-	11,938	-	-
Due To Related Party	3,053	-	3,053	-	1,364,476
Deferred Revenue	428,848	-	428,848	-	-
Long-term Obligations:					
Due Within One Year:					
Deferred Rent	-	-	-	36,000	-
Capital Lease Obligations	133,566	-	133,566	-	-
Notes Payable	-	16,334	16,334	-	-
Long-term Debt	-	-	-	-	800,000
Due Beyond One Year:					
Deferred Rent	-	-	-	34,696	-
Capital Lease Obligations	136,179	-	136,179	-	-
Long-term Debt, Net of Unamortized Premium of \$290,677	-	-	-	-	53,980,677
Pension Liability	19,922,000	-	19,922,000	-	-
Total Liabilities	23,718,121	554,223	24,272,344	70,871	56,148,528
Commitments and Contingencies (Notes 8, 9, 10, 11, 13, 14, 15, 16 and 17)					
<u>Deferred Inflows of Resources</u>					
Related to Pensions	1,386,000	-	1,386,000	-	-
<u>Net Position</u>					
Net Investment In Capital Assets	2,173,806	173,998	2,347,804	-	-
Unrestricted:					
Designated by the Board for Prepaid Rent	539,500	-	539,500	-	-
Designated by the Board for Capital Improvements	2,296,000	-	2,296,000	-	-
Designated by the Board for Unforeseen Contingencies	800,000	-	800,000	-	-
Undesignated	(12,480,687)	(275,861)	(12,756,548)	3,479,720	(1,690,250)
Total Unrestricted	(8,845,187)	(275,861)	(9,121,048)	3,479,720	(1,690,250)
Total Net Position (Deficit)	\$ (6,671,381)	\$ (101,863)	\$ (6,773,244)	\$ 3,479,720	\$ (1,690,250)

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions	Expenses	Charges for Service	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position				
				Governmental Activities	Business-Type Activities	Total	Component Unit DeMedici	Component Unit DeMedici II
Governmental activities:								
Instruction:								
Regular Instruction Programs	\$ 12,499,416	\$ -	\$ 2,506,059	\$ (9,993,357)	\$ -	\$ (9,993,357)	\$ -	\$ -
Special Instruction Programs	2,780,099	-	-	(2,780,099)	-	(2,780,099)	-	-
Other Instructional Programs	3,412	-	-	(3,412)	-	(3,412)	-	-
Support Services:								
Pupil Personnel	797,362	-	-	(797,362)	-	(797,362)	-	-
Instructional Staff	707,172	-	-	(707,172)	-	(707,172)	-	-
Administration	3,840,291	-	-	(3,840,291)	-	(3,840,291)	-	-
Pupil Health	227,463	-	58,487	(168,976)	-	(168,976)	-	-
Business	556,903	-	-	(556,903)	-	(556,903)	-	-
Operation and Maintenance of Plant Services	6,996,715	-	375,659	(6,621,056)	-	(6,621,056)	-	-
Central	472,362	-	-	(472,362)	-	(472,362)	-	-
Operation of Non-Instructional Services:								
Student Activities	197,020	-	-	(197,020)	-	(197,020)	-	-
Community Service	229,213	-	-	(229,213)	-	(229,213)	-	-
Debt Service	10,926	-	-	(10,926)	-	(10,926)	-	-
Total Governmental Activities	29,318,354	-	2,940,205	(26,378,149)	-	(26,378,149)	-	-
Business-Type Activities								
Food Service	965,028	373,958	673,916	-	82,846	82,846	-	-
Total Primary Government Activities	\$ 30,283,382	\$ 373,958	\$ 3,614,121	(26,378,149)	82,846	(26,295,303)	-	-
Component Units								
DeMedici Corporation	-	-	-	-	-	-	(216,535)	-
DeMedici II Corporation	-	-	-	-	-	-	-	(5,276,749)
General Revenues								
Local Educational Agencies				25,923,893	-	25,923,893	-	-
Rental Income				-	-	-	744,862	4,420,262
Other Revenue				341,890	-	341,890	1,087	7,547
Total General Revenue				26,265,783	-	26,265,783	745,949	4,427,809
Change in Net Position				(112,366)	82,846	(29,520)	529,414	(848,940)
Net Position (Deficit) - Beginning of Year				(6,559,015)	(184,709)	(6,743,724)	2,950,306	(841,310)
Net Position (Deficit) - End of Year				\$ (6,671,381)	\$ (101,863)	\$ (6,773,244)	\$ 3,479,720	\$ (1,690,250)

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2017

	<u>General Fund</u>
<u>Assets</u>	
Assets	
Cash	\$ 7,151,084
State Subsidies Receivable	395,550
Federal Subsidies Receivable	260,136
Local Subsidies Receivable	292,305
Other Receivables	251,132
Due from Other Funds	487,477
Due from Related Party	6,436
Inventories	400,865
Prepaid Expenses	<u>1,637,874</u>
Total Assets	<u>\$ 10,882,859</u>
<u>Liabilities and Fund Balance</u>	
Liabilities	
Accounts Payable and Accrued Expenses	\$ 1,398,078
Accrued Salary and Benefits	1,684,459
Due to Affiliates	11,938
Due to Related Party	3,053
Deferred Revenue	<u>428,848</u>
Total Liabilities	<u>3,526,376</u>
Fund Balance	
Nonspendable	2,038,739
Committed - Capital Improvements	2,296,000
Committed - Unforeseen Contingencies	800,000
Unassigned	<u>2,221,744</u>
Total Fund Balance	<u>7,356,483</u>
Total Liabilities and Fund Balance	<u>\$ 10,882,859</u>

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balance for Governmental Fund \$ 7,356,483

Total Net Position Reported for Governmental Activities in the Statement
of Net Position is Different because:

Capital Assets used in governmental funds are not financial resources and
therefore, are not reported in the fund. Those assets consist of:

Leasehold Improvements	2,164,976	
Furniture and Equipment	1,350,128	
Transportation Equipment	67,338	
Software	948,828	
Less: Accumulated Depreciation	(2,087,719)	
		2,443,551

Long-term liabilities that pertain to the governmental fund,
including notes payable, 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:

Notes payable and capital lease obligations	(269,745)	
Net pension liability, net of contractual liability	(19,922,000)	
		(20,191,745)

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

Deferred outflows of resources related to pensions	5,106,330	
Deferred inflows of resources related to pensions	(1,386,000)	
		3,720,330

Total Net Position (Deficit) of Governmental Activities \$ (6,671,381)

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>
Revenues	
Local Educational Agency Assistance	\$ 25,923,893
Other local sources	341,890
State sources	515,994
Federal sources	<u>2,424,211</u>
Total Revenues	<u>29,205,988</u>
Expenditures	
Instruction	13,704,363
Support Services	13,111,118
Non-Instructional Services	391,461
Debt Service	279,190
Capital Outlays	<u>1,821,997</u>
Total Expenditures	<u>29,308,129</u>
Excess (Deficit) Revenues Over Expenditures	(102,141)
Other Financing Sources (Uses):	
Proceeds from Capital Lease Obligations	<u>400,749</u>
Net Change in Fund Balance	298,608
Fund Balance - Beginning of Year	<u>7,057,875</u>
Fund Balance - End of Year	<u>\$ 7,356,483</u>

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2017

Net Change in Fund Balance - Total Governmental Fund \$ 298,608

Amounts Reported for Governmental Activities in the Statement of Activities
are different because:

Governmental funds report 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 Outlays	1,821,997	
Depreciation Expense	<u>(472,217)</u>	
		1,349,780

The governmental fund reports note proceeds as financing sources, while
repayments of note principal and capital lease obligations are reported
as expenditures. In the statement of net position, however, issuing debt
increases long-term liabilities and does not affect the statement of activities,
and repayment of principal reduces the liability. The net effect of these
differences in the treatment of notes payable, is as follows:

Proceeds from Capital Lease Obligations	(400,749)	
Repayments of notes and capital lease obligations	<u>268,255</u>	
		(132,494)

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

(1,628,260)

Change in Net Position of Governmental Activities \$ (112,366)

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
<u>Assets</u>	
Assets	
Current Assets:	
Cash	\$ 47,329
State Subsidies Receivable	5,177
Federal Subsidies Receivable	102,812
Prepaid Expenses	<u>106,711</u>
Total Current Assets	<u>262,029</u>
Capital Assets:	
Furniture and Equipment	405,711
Less: Accumulated Depreciation	<u>(215,380)</u>
Total Capital Assets, Net	<u>190,331</u>
Total Assets	<u>\$ 452,360</u>
<u>Liabilities</u>	
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 50,412
Due to General Fund	487,477
Long-term Debt, Current Portion	<u>16,334</u>
Total Current Liabilities	554,223
<u>Net Position</u>	
Unrestricted Deficit	<u>(101,863)</u>
Total Liabilities and Net Position	<u>\$ 452,360</u>

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Operating Revenues	
Food Service Revenues	\$ 373,958
Operating Expenses	
Management Service Costs	819,230
Administrative	63,843
Salaries and Related Benefits	25,510
Depreciation	<u>56,445</u>
Total Operating Expenses	<u>965,028</u>
Operating Loss	<u>(591,070)</u>
Nonoperating Revenues:	
Federal Sources	642,905
State Sources	<u>31,011</u>
Total Nonoperating Revenues	<u>673,916</u>
Change In Net Position	82,846
Net Position (Deficit) - Beginning of Year	<u>(184,709)</u>
Net Position (Deficit) - End of Year	<u>\$ (101,863)</u>

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017

	<u>Enterprise Fund</u> <u>Food Service</u> <u>Fund</u>
Cash Flows From Operating Activities	
Cash Received From (Paid To)	
Food Services	\$ 373,958
Payments to Suppliers	(841,486)
Payments to Employees	<u>(19,848)</u>
Net Cash Used in Operating Activities	<u>(487,376)</u>
Cash Flows from Investing Activities	
Additions of Property and Equipment	<u>(9,335)</u>
Cash Flows From Non-Capital Financing Activities	
Federal Sources	635,255
State Sources	33,026
Payment on Long-term Debt	(16,334)
Internal Balances	<u>(601,850)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>50,097</u>
Net Decrease in Cash	(446,614)
Cash, Beginning of Year	<u>493,943</u>
Cash, End of Year	<u>\$ 47,329</u>
Reconciliation of Operating Income to Net Cash Used in	
Operating Activities	
Operating Loss	\$ (591,070)
Adjustments to Reconcile Operating Income to Net Cash	
Used in Operating Activities	
Depreciation Expense	56,445
Commodities Expense	38,482
Change in Assets and Liabilities	
Receivables	807
Accounts Payable	10,371
Prepays	<u>(2,411)</u>
Net Cash Used in Operating Activities	<u>\$ (487,376)</u>

Noncash Transactions:

The School received commodities during fiscal year 2017 totaling \$38,482.

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUND
JUNE 30, 2017

	Total Agency Fund
<u>Assets</u>	
Cash	\$ 280,850
<u>Liabilities</u>	
Due to Student Groups	280,850
<u>Net Position</u>	
Unrestricted	\$ -

The accompanying notes are an integral part of the financial statements

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Philadelphia Performing Arts: A String Theory 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 a charter school contract ending on June 30, 2019. The School is located in Philadelphia, Pennsylvania. During the 2016-2017 school year, the School served students in grades K through 12.

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") Statement No. 14, *The Financial Reporting Entity*. 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. 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, dependency, and financial accountability. As described below, the School has identified two component units.

Component Units

DeMedici Corporation ("DeMedici") and DeMedici II Corporation ("DeMedici II") are legally separate, tax-exempt component units of the School. DeMedici and DeMedici II were organized to acquire and construct the School's facilities. Although the School does not control the timing or amounts of receipts from DeMedici and DeMedici II, the majority of resources and income thereon that DeMedici and DeMedici II hold are restricted to the activities of the School. Because these restricted resources held by DeMedici and DeMedici II can only be used by or for the benefit of the School, DeMedici and DeMedici II are considered component units of the School and are discretely presented in the School's financial statements.

Basis of Presentation

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the School's accounting policies are described below.

The School adopted statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*, which identifies the hierarchy of generally accepted accounting principles in the context of the current governmental financial reporting environment.

DeMedici and DeMedici II are accounted for under GAAP as applied to not-for-profit entities and use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by program revenues. These statements include the financial activities of the primary government; fiduciary funds are excluded.

The fund financial statements (governmental fund balance sheet and statement of governmental fund revenues, expenditures and changes in fund balance) report on the School's general fund.

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements:

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

Fund financial statements:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The School reports the following major governmental fund:

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

The School reports the following proprietary fund:

Food Service fund – An enterprise fund is required to be used to account for operations for which a fee is charged to external users for goods and services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School's enterprise fund are charges to students for sales of food. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Fund financial statements (continued)

The School reports the following fiduciary agency fund:

Student Activities Fund – The agency fund is used to account for assets held by the School for student groups and is managed by the students. The agency fund is purely custodial in nature and does not involve a measurement of operations.

Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, 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.”

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 cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to remain intact. The School's nonspendable fund balance comprises inventories and prepaid expenses.
- 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 is not considered restricted or committed.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Fund Balance Classification Policies and Procedures (continued)

- Unassigned – This category represents the part of the spendable fund balance that has not been categorized as nonspendable, restricted, committed, or assigned.

Budgets and Budgetary Accounting

The School adopts an annual budget on a basis 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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The School's cash consists of cash on hand and demand deposits. For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Prepaid Expenses and Prepaid Rent

Prepaid expenses at June 30, 2017 include amounts for payments to vendors for services applicable to future accounting periods such as rental payments, insurance premiums and retainage for professional services.

Receivables

Receivables primarily consist of amounts due from federal, state and local authorities. Receivables are stated at the amount management expects to collect. As of June 30, 2017, based on historical experience, no allowance for doubtful accounts has been established.

Capital Assets

The School's capital assets, which include leasehold improvements and furniture and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a threshold level of \$2,500 for capitalizing assets. The School does not possess any infrastructure.

The infrastructure is owned by DeMedici and DeMedici II, which are shown discretely. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the 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 thirty-nine years.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Deferred Outflows / Inflows of Resources

Statement No. 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 Statement No. 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.

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. With few exceptions, the School is no longer subject to U.S. federal tax examinations by taxing authorities for years before June 30, 2014.

Pensions

The School follows Statement No. 68, *Accounting and Financial Reporting for Pensions, An Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Under Statements No. 68 and No. 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 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.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Adoption of Government Accounting Standards Board Statements

The School adopted the provisions of GASB Statement No. 80, "*Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.*" The adoption of this statement had no effect on the reported amounts.

The School adopted the provisions of GASB Statement No. 82, "*Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.*" The adoption of this statement had no effect on the reported amounts.

Pending Changes in Accounting Principles

In March 2016 the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements.*" The School is required to adopt Statement No. 81 for its fiscal year 2018 financial statements.

In November 2016 the GASB issued Statement No. 83, "*Certain Asset Retirement Obligations.*" The School is required to adopt Statement No. 83 for its fiscal year 2019 financial statements.

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities.*" The School is required to adopt Statement No. 84 for its fiscal year 2020 financial statements.

In March 2017, the GASB issued Statement No. 85, "*Omnibus 2017.*" The School is required to adopt Statement No. 85 for its fiscal year 2018 financial statements.

In May 2017, the GASB issued Statement No. 86, "*Certain Debt Extinguishment Issues.*" The School is required to adopt Statement No. 86 for its fiscal year 2018 financial statements.

In June 2017, the GASB issued Statement No. 87, "*Leases.*" The School is required to adopt Statement No. 87 for its fiscal year 2021 financial statements.

The School has not yet completed the various analyses required to estimate the financial statement impact of these new pronouncements.

Subsequent Events

The School has evaluated subsequent events through December 6, 2017, 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.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 2 CASH, RESTRICTED CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the School's, DeMedici's and DeMedici II's deposits may not be returned to the School, DeMedici and DeMedici II. The School, DeMedici and DeMedici II monitor custodial credit risk by periodically reviewing the Federal Deposit Insurance Corporation's ("FDIC") limits and published credit ratings of its depository banks. 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:

Reconciliation to the Financial Statements

	Governmental Activities	Business-Type Activity	Component Unit - DeMedici	Component Unit - DeMedici II
Uninsured and Collateralized Amount	\$ 6,777,479	\$ 47,239	\$ 238,798	\$ 4,400,783
Total	\$ 6,777,479	\$ 47,239	\$ 238,798	\$ 4,400,783
	Governmental Activities	Business-Type Activity	Component Unit - DeMedici	Component Unit - DeMedici II
Cash exposed to custodial risk	\$ 6,777,479	\$ 47,329	\$ 238,798	\$ 4,400,783
Plus: insured amount	500,000	-	250,000	282,984
Total	\$ 7,277,479	\$ 47,329	\$ 488,798	\$ 4,683,767

NOTE 3 RECEIVABLES

Receivables at June 30, 2017 primarily consist of amounts due from federal, state, and local authorities. All receivables are considered collectible due to the stable condition of the state and private programs.

A summary of receivables is as follows:

<u>Receivables</u>	Governmental Activities	Business-Type Activity
Federal	\$ 260,136	\$ 102,812
State	395,550	5,177
Local	292,305	-
	\$ 947,991	\$ 107,989

NOTE 4 LOCAL EDUCATIONAL AGENCY ASSISTANCE (REVENUE)

The School receives funding from the School District of Philadelphia (the "School District") on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis.

For each non-special education student enrolled, charter schools receive no less than the budgeted total expenditure per average daily membership of the prior school as defined by the Act. For the year ended June 30, 2017, the rate for most of the students was \$8,142 per year per student, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 5 CAPITAL ASSETS, NET

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

<u>Governmental Activities</u>	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Leasehold Improvements	\$ 962,098	\$ 1,221,374	\$ (18,496)	\$ 2,164,976
Furniture and Equipment	749,505	600,823	-	1,350,128
Transportation Equipment	67,338	-	-	67,338
Software	948,828	-	-	948,828
Less: Accumulated Depreciation	(1,615,502)	(472,217)	-	(2,087,719)
Capital Assets, Net	\$ 1,112,267	\$ 1,349,780	\$ (18,496)	\$ 2,443,551

Depreciation expense for the year ended June 30, 2017, was \$472,217.

<u>Business-Type Activities</u>	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Furniture and Equipment	\$ 396,375	\$ 9,335	\$ -	\$ 405,710
Less: Accumulated Depreciation	(158,934)	(56,445)	-	(215,379)
Capital assets, net	\$ 237,441	\$ (47,110)	\$ -	\$ 190,331

Depreciation expense for the year ended June 30, 2017, was \$56,445.

NOTE 6 OBLIGATIONS UNDER LEASES

Operating Leases

The School leases copiers for use at its facility under various operating lease agreements that expire at various times through June 30, 2018. As of June 30, 2017, the future minimum payments of the leases are as follows:

<u>Year ending June 30:</u>	
2018	\$ 21,370

Capital Lease

In September 2014, the School entered into a three-year agreement with Apple Financial to lease computers at a cost of \$403,437. The agreement has an annual interest rate of 2.08% and is payable in annual installments of \$140,100. In September 2016, the School entered into a three-year agreement with Apple Financial to lease computers at a cost of \$400,749. The agreement has an annual interest rate of 2.08% and is payable in annual installments of \$138,842. Future minimum lease payments required under the capital lease as of June 30, 2017, are as follows:

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 6 OBLIGATIONS UNDER LEASES (CONTINUED)

<u>Year ending June 30:</u>	
2018	\$ 140,100
2019	138,848
	<u>\$ 278,948</u>
Total minimum lease payments	\$ 278,948
Less: amount representing interest	<u>(9,203)</u>
Present value of minimum lease payments	269,745
Less: current portion of capital lease obligations	<u>(133,566)</u>
Long-term portion of capital lease obligations	<u>\$ 136,179</u>

Changes in capital lease obligations were as follows for the year ended June 30, 2017:

Balance, July 1, 2016	\$ 137,251
Additions	400,749
Repayments of principal	<u>(268,255)</u>
Balance, June 30, 2017	<u>\$ 269,745</u>

Interest expense on the capital leases was \$10,926 for the year ended June 30, 2017.

NOTE 7 RELATED-PARTY TRANSACTIONS

Facility Leasing Arrangements

On June 1, 2013, the School entered into a 30-year non-cancelable lease with DeMedici for the rental of its buildings at 2600 South Broad Street, 2630 South Broad Street and 2636 South Broad Street, Philadelphia, PA. Base rentals are due in increasing amounts over the term of the lease. The School paid base rentals of \$494,862 and additional rent, as defined in the lease, of \$250,000 to DeMedici during the year ended June 30, 2017.

On June 1, 2013, the School entered into a 30-year non-cancelable operating lease for the rental of its facilities with DeMedici II. The lease will expire on June 15, 2043. Rent expense under the lease, which includes base rent recognized ratably over the term of the lease and additional rent, as defined in the lease agreement, was \$4,420,262 for the year ended June 30, 2017. All of the School's assets are pledged as collateral with the leases.

The following is a schedule of future minimum lease payments under the operating leases at June 30, 2017:

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 7 RELATED-PARTY TRANSACTIONS (CONTINUED)

Facility Leasing Arrangements (Continued)

<u>Year ending June 30:</u>	<u>Amount</u>
2018	\$ 4,397,775
2019	4,399,775
2020	4,398,775
2021	4,399,775
2022	4,397,475
2023-2027	21,998,900
2028-2032	22,002,675
2033-2037	21,998,950
2038-2042	21,994,062
2043	8,801,538
	<u>\$ 118,789,700</u>

DeMedici II has a debt obligation as described in Note 17; the School entered into a lease agreement with DeMedici and DeMedici II as a means to transfer funds sufficient to service this debt.

The School prepaid rent to DeMedici and DeMedici II and it is anticipated that approximately \$36,000 and \$49,000, respectively, will be recognized annually as rent expense. The remaining balance of prepaid rent as of June 30, 2017 to DeMedici and DeMedici II is \$70,696 and \$1,274,003, respectively.

The following is a schedule of anticipated amortization of prepaid rent at June 30, 2017:

<u>Year ending June 30:</u>	<u>Amount</u>
2018	\$ 85,000
2019	83,696
2020	49,000
2021	49,000
2022	49,000
Thereafter	1,029,003
	<u>1,344,699</u>
Current Portion	85,000
Long-term Portion	<u>\$ 1,259,699</u>

Related-Party Receivables and Payables

The School received advances of \$3,053 from DeMedici and has advanced \$6,436 to DeMedici II as of June 30, 2017. The advances, which are noninterest-bearing, do not have stated repayment terms but are expected to be repaid within one year.

Management Fee

The School has an agreement with a nonprofit charter school management organization through 2017, which is automatically renewable on an annual basis. The management organization advises the School on educational and fiscal policies, as well as assisting with fundraising, and provides facilities management. The fee is based on a per student amount for the year. The base amounts due for fiscal year ending June 30, 2018 are \$1,180,438 for the Academic Service Fee and \$208,313 for the Facilities Management Fee.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 8 LONG-TERM DEBT

The School financed the purchase of software for a three-year term.

Following are changes in long-term debt for the year ended June 30, 2017:

Governmental Activities:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Note payable	\$ 14,514	\$ -	\$ 14,514	\$ -

Business-Type Activity:

In July 2013, the School obtained a 60-month loan with the Nutrition Group for \$81,669 to finance the food service equipment. The loan is noninterest-bearing. The balance of the loan at June 30, 2017 was \$16,334

Future maturities of the loan as of June 30, 2017, are as follows:

Year ending June 30:	<u>Principal</u>
2018	\$ 16,334

NOTE 9 PENSION PLAN

Plan Description

The School contributes to a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the PSERS, 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 reporting entities in the Commonwealth of Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 8101-8535) (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.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits under the provisions of the 1975 revision of the Code by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserved the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 9 PENSION PLAN (CONTINUED)

benefits is vested and early retirement benefits may be elected. For Class T-E and T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

All members are fully vested in their individual balance in the Members' Savings Account. All non-vested members may receive a refund of their individual balance of member contributions and interest from the Members' Savings Account upon termination of public school employment. Vested members who enrolled prior to July 1, 2011 may elect to receive a return of their accumulated contributions and interest upon their retirement which results in a reduced monthly annuity. Vested Class T-E and T-F members cannot withdraw their accumulated contributions and interest from the Members' Savings Account upon their retirement.

Contributions

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

Member Contributions:

- 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.
- 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 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 that, in future fiscal years, could cause the Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 9 PENSION PLAN (CONTINUED)

Contributions (Continued)

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 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 from the School for the years ended June 30, 2017, 2016, 2015 and 2014, amounted to \$2,590,466, \$1,338,849, \$1,185,384 and \$956,618, respectively.

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 \$19,922,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 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 0.0402%, which was a decrease of 0.0035% from its proportion measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the School recognized pension expense of \$2,590,466. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ (166,000)
Changes in assumptions	719,000	-
Net difference between projected and actual investment earnings	1,110,000	-
Changes in proportions	1,853,000	(1,220,000)
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	1,424,330	-
	<u>\$ 5,106,330</u>	<u>\$ (1,386,000)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 9 PENSION PLAN (CONTINUED)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (Continued)

\$1,424,330 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	
2017	\$ 854,000
2018	854,000
2019	476,000
2020	<u>112,000</u>
	<u>\$ 2,296,000</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the System'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 - 7.25%, includes inflation at 2.75%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 2.75% and real wage growth and merit or seniority increases of 2.25%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 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 Board 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 pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 9 PENSION PLAN (CONTINUED)

Plan Assets

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.

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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's proportionate share of the net pension liability to change 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	\$ 24,370,000	\$ 19,922,000	\$ 16,184,000

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PSERS financial report, which can be found on the PSERS's website at www.psers.state.pa.us.

NOTE 10 NET POSITION

A net position designation and commitment of fund balance is used to indicate that a portion of the total net position is not appropriable for expenditures because some underlying assets are not available financial resources or are legally segregated for specific future uses. As of June 30, 2017, the Board of Trustees has established net position designations and commitments in fund balance in the amount of \$3,635,500 as shown in the statement of net position.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 11 GRANT CONTINGENCIES

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.

NOTE 12 LITIGATION

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

NOTE 13 EMPLOYEE BENEFIT PLAN

The School maintains a savings incentive plan 403(b) for its employees. All employees are eligible. Participants may elect voluntary salary deferrals under the plan up to the maximum permitted by law. The School makes a contribution for certain employees enrolled in the plan at a rate of 5% of their eligible salaries. Contribution expense for the plan amounted to \$304,205 for the year ended June 30, 2017.

NOTE 14 COMPONENT UNIT – DEMEDICI CORPORATION

Cash and Cash Equivalents

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

Building and Improvements, Net

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

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Building	\$ 2,084,537	\$ -	\$ -	\$ 2,084,537
Building improvements	372,033	-	-	372,033
Less: accumulated depreciation	(692,881)	(62,989)	-	(755,870)
Capital assets, net	<u>\$ 1,763,689</u>	<u>\$ (62,989)</u>	<u>\$ -</u>	<u>\$ 1,700,700</u>

Depreciation expense for the year ended June 30, 2017, was \$62,989.

Operating Leases

DeMedici recognizes scheduled increases in base rental income on a straight-line basis over the lease term. Additional rents are recognized as rental income when received.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 14 COMPONENT UNIT – DEMEDICI CORPORATION (CONTINUED)

Related-Party Transactions

On June 1, 2013, DeMedici entered into a 30-year lease with the School for the rental of its buildings at 2600 South Broad Street, 2630 South Broad Street and 2636 South Broad Street, Philadelphia, PA. Base rentals are due in increasing amounts over the term of the lease. The School paid base rentals of \$494,862 and additional rent, as defined in the lease, of \$250,000 to DeMedici during the year ended June 30, 2017.

DeMedici is a co-borrower with DeMedici II related to \$55,500,000 of Series 2013 bonds for the purchase and improvement of a building used by the School. The total amount of the bond proceeds have been allocated to DeMedici II. The loan is payable in annual payments of principal and interest, which correspond to the repayment or redemption of the bonds that were issued on behalf of DeMedici by the Philadelphia Authority for Industrial Development. The bonds are collateralized by substantially all assets of DeMedici and DeMedici II and a security interest in the lease with the School. The bonds were issued with various maturities, interest rates and principal amounts as follows: June 15, 2023, 6.00% and \$6,600,000; June 15, 2033, 6.50% and \$15,350,000; and June 15, 2043, 6.75% and \$33,550,000. The balance payable on the bonds was \$54,490,000 at

Related-Party Transactions (continued)

June 30, 2017. DeMedici does not have the intention of having to make payments related to the amount allocated to DeMedici II.

Commitment

DeMedici leases a property from an unrelated party through August 31, 2017, with an option to extend the lease through August 31, 2018. Annual base rentals are \$102,800 during all periods, including the option period.

NOTE 15 COMPONENT UNIT – DEMEDICI II CORPORATION

Bond Issuance Costs

Costs relating to the issuance of bonds are amortized over the term of the bonds using the interest method.

Operating Leases

DeMedici II recognizes scheduled increases in base rental income on a straight-line basis over the lease term. Additional rents are recognized as rental income when received.

Cash, Restricted Cash and Cash Equivalents

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

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 15 COMPONENT UNIT – DEMEDICI II CORPORATION (CONTINUED)

Land, Building and Improvements

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

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2016
Land	\$ 12,376,795	\$ -	\$ -	\$ 12,376,795
Building	21,963,547	-	-	21,963,547
Building improvements	15,857,379	-	-	15,857,379
Furniture and equipment	2,276,912	-	-	2,276,912
Less: accumulated depreciation	(3,437,125)	(1,356,564)	-	(4,793,689)
Capital assets, net	<u>\$ 49,037,508</u>	<u>\$ (1,356,564)</u>	<u>\$ -</u>	<u>\$ 47,680,944</u>

Depreciation expense for the year ended June 30, 2017, was \$1,356,564.

Long-Term Debt and Restricted Cash and Cash Equivalents

On June 28, 2013, DeMedici II and DeMedici, as co-borrowers, borrowed \$55,500,000 of Series 2013 bonds for purchase and improvement of a building to be used by the School. The total amount of the bond proceeds was allocated to DeMedici II. The loan is payable in annual payments of principal and interest, which correspond to the Philadelphia Authority for Industrial Development. The bonds are collateralized by substantially all assets of DeMedici II and DeMedici and a security interest in the lease with the School. The bonds were issued with various maturities, interest rates and principal amounts as follows: June 15, 2023, 6.00% and \$6,600,000; June 15, 2033, 6.50% and \$15,350,000; and June 15, 2043, 6.75% and \$33,550,000. The bonds include an unamortized premium in the amount of \$290,677 at June 30, 2017. The balance payable on the bonds was \$54,490,000 at June 30, 2017.

As of June 30, 2017, principal and interest requirements of long-term debt based on the schedule of mandatory redemption are as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 800,000	\$ 3,269,400	\$ 4,069,400
2019	850,000	3,221,400	4,071,400
2020	900,000	3,170,400	4,070,400
2021	955,000	3,116,400	4,071,400
2022	1,010,000	3,059,100	4,069,100
2023-2027	6,085,000	15,250,025	21,335,025
2028-2032	8,335,000	13,248,300	21,583,300
2033-2037	11,450,000	10,465,075	21,915,075
2038-2042	15,860,000	6,134,063	21,994,063
2043	<u>8,245,000</u>	<u>556,537</u>	<u>8,801,537</u>
	54,490,000	61,490,700	115,980,700
Unamortized Premium	<u>290,677</u>	<u>-</u>	<u>290,677</u>
	<u>\$ 54,780,677</u>	<u>\$ 61,490,700</u>	<u>\$ 116,271,377</u>

Interest expense, which includes \$40,000 amortization of bond issuance costs and is net of amortization of premium on long-term debt of \$11,180, amounts to \$3,669,795.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 15 COMPONENT UNIT – DEMEDICI II CORPORATION (CONTINUED)

Long-Term Debt and Restricted Cash and Cash Equivalents

DeMedici II also maintains several cash and cash equivalent accounts whereby the funds are restricted pursuant to the bond issuance agreement. Total restricted cash and cash equivalents as of June 30, 2017 was \$4,650,783, of which \$4,410,434 was being held for future payments of principal and interest.

Related-Party Transactions

DeMedici II has received advances of \$6,436 from the School and \$1,358,040 from DeMedici as of June 30, 2017. The advances, which are noninterest-bearing, do not have stated repayment terms and are expected to be repaid within one year.

REQUIRED SUPPLEMENTARY
INFORMATION

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>With Final Budget</u>
Revenues				
Local Educational Agencies	\$ 25,946,986	\$ 25,946,986	\$ 25,923,893	\$ (23,093)
State Sources	496,000	496,000	515,994	19,994
Federal Sources	1,714,770	1,714,770	2,424,211	709,441
Other Sources	<u>732,191</u>	<u>732,191</u>	<u>341,890</u>	<u>(390,301)</u>
Total Revenues	<u>28,889,947</u>	<u>28,889,947</u>	<u>29,205,988</u>	<u>316,041</u>
Expenditures				
Instruction	14,290,798	14,290,798	13,704,363	586,435
Support Services	13,514,327	13,514,327	13,111,118	403,209
Non-Instructional Services	456,391	456,391	391,460	64,931
Debt Service	-	-	279,191	(279,191)
Capital Outlays	<u>-</u>	<u>-</u>	<u>1,821,997</u>	<u>(1,821,997)</u>
Total Expenditures	<u>28,261,516</u>	<u>28,261,516</u>	<u>29,308,129</u>	<u>(1,046,613)</u>
Excess of Revenues Over Expenditures	628,431	628,431	(102,141)	(730,572)
Other Financing Sources (Uses)				
Proceeds from Capital Lease Obligations	<u>-</u>	<u>-</u>	<u>400,749</u>	<u>400,749</u>
Net Change in Fund Balance	628,431	628,431	298,608	(329,823)
Fund Balance, Beginning of Year	<u>7,065,548</u>	<u>7,065,548</u>	<u>7,057,875</u>	<u>(7,673)</u>
Fund Balance, End of Year	<u>\$ 7,693,979</u>	<u>\$ 7,693,979</u>	<u>\$ 7,356,483</u>	<u>\$ (337,496)</u>

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHERS' PENSION PLAN
Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's Proportion of the net pension liability	0.0402%	0.0437%	0.0430%
School's proportionate share of the net pension liability	\$ 19,922,000	\$ 18,929,000	\$ 17,020,000
School's covered- employee payroll	\$ 5,212,374	\$ 5,627,116	\$ 5,484,174
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382.21%	336.39%	310.35%
Plan fiduciary net position as a percentage of the total Pension liability	50.14%	54.36%	57.24%

* This schedule is intended to illustrate information for 10 years. However, until a 10-year trend is compiled, the School is presenting information for those years for which information is available.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF SCHOOL CONTRIBUTIONS
TEACHERS' PENSION PLAN
Last 10 Fiscal Years*

Philadelphia Performing Arts: A String Theory Charter School
Schedule of the School's Contributions
Teachers' Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's contractually required contribution	\$ 1,409,257	\$ 1,338,849	\$ 1,185,384
School's contributions in relation to the contractually required contribution	<u>(1,409,257)</u>	<u>(828,652)</u>	<u>(1,185,384)</u>
School's contribution deficiency	<u>\$ -</u>	<u>\$ (510,197)</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 5,212,374	\$ 5,627,116	\$ 5,484,174
Contribution as a percentage of covered - employee payroll	27.04%	23.79%	21.61%

* This schedule is intended to illustrate information for 10 years. However, until a 10-year trend is compiled, the School is presenting information for those years for which information is available.

SINGLE AUDIT

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrual (Deferral) Beginning of Year	Amount Received	Amount Expended	Accrual (Deferral) End of Year	Subrecipient Awards
FEDERAL AWARDS							
<u>U.S. Department of Agriculture</u>							
Pass-through PA Department of Education							
National School Lunch Program	10.555	362	\$ 114,917	\$ 560,438	\$ 536,815	* \$ 91,294	\$ -
School Breakfast Program	10.553	365	18,728	74,817	67,607	* 11,518	-
Pass-through PA Department of Agriculture							
National School Lunch Program - Food Commodities	10.555	362	-	38,482	38,482	* -	-
Total Child Nutrition Cluster			133,645	673,737	642,904	102,812	-
Total U.S. Department of Agriculture			133,645	673,737	642,904	102,812	-
<u>U.S. Department of Education</u>							
Pass-through PA Department of Education							
Title I Grants to Local Educational Agencies	84.010	013-16-0901	281,050	282,120	1,070	-	-
Title I Grants to Local Educational Agencies	84.010	013-17-0901	-	1,678,563	1,888,774	210,211	-
Supporting Effective Instruction State Grants	84.367	020-17-0901	-	25,445	25,391	(54)	-
Special Education Grants to States	84.027	N/A	-	-	292,305	292,305	-
Total U.S. Department of Education			281,050	1,986,128	2,207,540	502,462	-
<u>U.S. Department of Health and Human Services</u>							
Pass-through PA Department of Education							
Medical Assistance Program	93.778		-	6,983	50,983	44,000	-
Total U.S Department of Health and Human Services			-	6,983	50,983	44,000	-
Total Federal Awards			\$ 414,695	\$ 2,666,848	\$ 2,901,427	\$ 649,274	\$ -

* Denotes Program Tested as Major

See accompanying notes to Schedule of Expenditures of Federal Awards.

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

NOTE 1: GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Philadelphia Performing Arts: A String Theory 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* ("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 modified accrual basis of accounting, which is described in Note 1 to the School's financial statements.

NOTE 3: PROGRAM CLUSTERS

In accordance with 2 CFR section 200.518 of 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.

Zelenkofske Axelrod LLC

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Philadelphia Performing Arts: A String Theory Charter School (a nonprofit organization), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Philadelphia Performing Arts: A String Theory Charter School's basic financial statements, and have issued our report thereon dated December 6, 2017. The financial statements of DeMedici Corporation and DeMedici II Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with DeMedici Corporation and DeMedici II Corporation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Philadelphia Performing Arts: A String Theory Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Harrisburg	Philadelphia	Pittsburgh	Greensburg
830 Sir Thomas Court, Suite 100 Harrisburg, PA 17109 717.561.9200 Fax 717.561.9202	2370 York Road, Suite A-5 Jamison, PA 18929 215.918.2277 Fax 215.918.2302	3800 McKnight E. Drive, Suite 3805 Pittsburgh, PA 15237 412.367.7102 Fax 412.367.7103	210 Tollgate Hill Rd Greensburg, PA 15601 724.834.2151 Fax 724.834.5969

Zelenkofske Axelrod LLC

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Philadelphia Performing Arts: A String Theory Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 6, 2017

Zelenkofske Axelrod LLC

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Philadelphia Performing Arts: A String Theory Charter School
Philadelphia, Pennsylvania

Compliance

We have audited Philadelphia Performing Arts: A String Theory Charter School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Philadelphia Performing Arts: A String Theory Charter School's major federal programs for the year ended June 30, 2017. Philadelphia Performing Arts: A String Theory Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Philadelphia Performing Arts: A String Theory Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *US. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Philadelphia Performing Arts: A String Theory Charter School's compliance.

Opinion on the Major Federal Program

In our opinion, Philadelphia Performing Arts: A String Theory Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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Greensburg

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724.834.2151 Fax 724.834.5969

Zelenkofske Axelrod LLC

Report on Internal Control Over Compliance

Management of Philadelphia Performing Arts: A String Theory Charter School, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Philadelphia Performing Arts: A String Theory Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Philadelphia Performing Arts: A String Theory Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


ZELENKOFSCHE AXELROD LLC

Jamison, Pennsylvania
December 6, 2017

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? ____ yes X no
- Significant Deficiencies identified that are not considered to be material weaknesses?
____ yes X none reported

Noncompliance material to financial statements noted? ____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ____ yes X no
- Significant Deficiencies identified that are not considered to be material weaknesses?
____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance. ____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Programs</u>
#10.553	School Breakfast Program
#10.555	National School Lunch Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes ____ no

Part 2: Findings - Financial Statement Audit (GAGAS)

None Noted

Part 3: Audit Findings and Questioned Costs (Major Program – Uniform Guidance)

None Noted

PHILADELPHIA PERFORMING ARTS: A STRING THEORY CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2017

None for fiscal year ended June 30, 2017