

**ANNUAL REPORT ON
CHARTER ARTS FOUNDATION
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023**

CHARTER ARTS FOUNDATION

Financial Statements

For the Fiscal Year Ended June 30, 2023

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position and Governmental Funds Balance Sheet	3
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes In Fund Balances.....	4
Notes to Basic Financial Statements.....	5 - 14
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	15 - 16



November 27, 2023

Board of Directors
Charter Arts Foundation
321 East 3rd Street
Bethlehem, PA 18015

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of the Charter Arts Foundation (A Component Unit of the Lehigh Valley Charter High School for the Arts), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Foundation's financial statements as listed in the table of contents.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the Statement of Net Position and Governmental Funds Balance Sheet and Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances and the respective changes in financial position, where applicable, as of and for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Charter Arts Foundation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Charter Arts Foundation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Charter Arts Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Charter Arts Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2023 on our consideration of Charter Arts Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Charter Arts Foundation's internal control over financial reporting and compliance.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

November 27, 2023

FINANCIAL STATEMENTS

CHARTER ARTS FOUNDATION
Statement of Net Position and Governmental Funds Balance Sheet
Fiscal Year Ended June 30, 2023

	<u>GENERAL FUND</u>	<u>ADJUSTMENTS</u>	<u>STATEMENT OF NET POSITION</u>
ASSETS			
Cash and Cash Equivalents	\$ 494,155	\$ -	\$ 494,155
Investments	250,000	-	250,000
Capital Assets, net of depreciation	-	22,674,995	22,674,995
Due from Primary Government	-	-	-
Pledges Receivable	-	15,317	15,317
Prepaid Expenses	6,001	-	6,001
TOTAL ASSETS	<u>\$ 750,156</u>	<u>\$ 22,690,312</u>	<u>\$ 23,440,468</u>
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	78,209	-	78,209
Loan Payable	-	12,095,186	12,095,186
TOTAL LIABILITIES	<u>78,209</u>	<u>12,095,186</u>	<u>12,173,395</u>
FUND BALANCES/NET POSITION			
FUND BALANCES:			
Nonspendable	\$ 6,001	\$ (6,001)	\$ -
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	665,946	(665,946)	-
TOTAL FUND BALANCES	<u>671,947</u>	<u>(671,947)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 750,156</u>	<u>\$ 11,423,239</u>	<u>\$ 12,173,395</u>
NET POSITION:			
Invested in capital assets, net of related debt		\$ 10,579,809	\$ 10,579,809
Unrestricted		687,264	687,264
Temporarily Restricted		-	-
Permanently Restricted		-	-
TOTAL NET POSITION		<u>\$ 11,267,073</u>	<u>\$ 11,267,073</u>

FUND BALANCE RECONCILIATION GOVERNMENT-WIDE
SHEET

Notes

This statement is in the format of a combined fund and government-wide financial statement. Fund balances are represented first, then the Statement of Net Position. The column in between represents entries required to reconcile the two. See Note 2 for a detailed explanation of the adjustments.

The Fund Statement follows the formula Assets = Liabilities + Fund Balance

The Statement of Net Position follows the formula Assets - Liabilities = Net Position

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

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

<u>EXPENDITURES/EXPENSES</u>	<u>GENERAL FUND</u>	<u>ADJUSTMENTS</u>	<u>STATEMENT OF ACTIVITIES</u>
Support Services	\$ 419,477	\$ -	\$ 419,477
Bad Debt Expense	-	270	270
Debt Service	15,606,118	(15,606,118)	-
Debt Interest Expense	-	684,089	684,089
Depreciation	-	613,823	613,823
TOTAL EXPENDITURES/EXPENSES	16,025,595	(14,307,936)	1,717,659
<u>PROGRAM REVENUES</u>			
Contributions	165,989	1,290	167,279
Miscellaneous Income	45	-	45
Special Events	142,910	1,407	144,317
Rental Income	874,380	-	874,380
TOTAL PROGRAM REVENUES	1,183,324	2,697	1,186,021
 Net Program Expenses (Revenues)	 (14,842,271)	 14,310,633	 (531,638)
<u>GENERAL REVENUES</u>			
Investment Income	32,109	-	32,109
TOTAL GENERAL REVENUES	32,109	-	32,109
 Excess (deficiency) of revenues over expenditures	 (14,810,162)	 14,310,633	 (499,529)
<u>OTHER FINANCING SOURCES (USES)</u>			
Net Transfers to/from Primary Government	(123,503)	-	(123,503)
Proceeds from Long-Term Financing	12,200,000	(12,200,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	12,076,497	(12,200,000)	(123,503)
<u>SPECIAL/EXTRAORDINARY ITEMS</u>			
Special Items	-	5,220,810	5,220,810
 TOTAL CHANGES IN FUND BALANCES AND NET POSITION	 (2,733,665)	 7,331,443	 4,597,778
<u>FUND BALANCE/NET POSITION</u>			
Beginning of the Year	3,405,612	(341,317)	6,669,295
End of the Year	\$ 671,947	\$ 6,990,126	\$ 11,267,073

Notes

Again, the report reflects a combined fund and government-wide financial statement, with a column that reconciles the two in between. See Note 2 for a detailed explanation of the adjustments.

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

CHARTER ARTS FOUNDATION
Notes to Financial Statements
Fiscal Year Ended June 30, 2023

Note 1 - Nature of Operations

The Charter Arts Foundation is a Pennsylvania Corporation with tax exempt status under Section 501(c)3 of the Internal Revenue Code of 1954, formed to support the health, welfare, and educational interests of the Lehigh Valley Charter High School for the Arts (Charter Arts). The primary source of revenues is rental income. Due to the fact that Charter Arts appointed the board and benefits from the Foundation it has been reported as a blended component unit of Charter Arts on the financial statements of the school as required by Governmental Accounting Standards. The Foundation is also considered a government entity for standalone reporting and falls under the jurisdiction of the Governmental Accounting Standards Board. As such, these financial statements have been prepared based on a government reporting model as prescribed by GASB Statement No. 34.

Note 2 - Summary of Significant Accounting Policies

A. Basis of Accounting

The General Fund columns presented on the 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 Foundation 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 statement of net position and the statement of activities columns presented on the financial statements 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.

The Adjustments column presented on the Statement of Net Position and Governmental Funds Balance Sheet represents the entries required to reconcile the two bases of accounting.

The adjustments presented are comprised of the following:

TOTAL FUND BALANCE - GENERAL FUND		\$ 671,947
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Assets	\$ 26,873,549	
Less: Accumulated Depreciation	<u>(4,198,554)</u>	22,674,995
Long-term pledges receivable are not expected to be paid in the current period and therefore are not reported as a receivable in the fund balance sheet		
		15,317
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities on the fund balance sheets.		
		<u>(12,095,186)</u>
TOTAL NET POSITION		<u>\$ 11,267,073</u>

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

The Adjustments column presented on the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance represents the entries required to reconcile the two bases of accounting. The adjustments presented are comprised of the following:

The additional amount by which depreciation exceeded capital outlays in the current period:			
Capital Outlays	\$	-	
Less: Depreciation		<u>(613,823)</u>	\$ (613,823)
Principal payments on debt are expenditures in the governmental funds, but are decreases to long-term liabilities in the statement of net assets.			14,922,029
Proceeds from Extended Term Financing that is recorded as income in the current year for governmental funds and recorded as a long term liability in the Statement of Net Assets.			(12,200,000)
Forgiveness of long term debt from the New Market Tax Credit is income on the statement of activities on the government wide financial statements but not recorded on the governmental fund income statement due to the current financial resources measurement focus.			5,220,810
To adjust for long term bad debt expense.			(270)
Donors who made pledges in the prior year that were not received until the current year were included in income for the statement of activities in the prior year but are included in income in the current year for governmental funds due to the current financial resources measurement focus.			<u>2,697</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES			\$ <u>7,331,443</u>

B. Net Position Classifications

The Foundation has adopted the standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities and changes in net position. It requires the classification of net position into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These calculations are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Foundation’s restricted net position represents contributions that are donor restricted for special purposes.

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

Unrestricted net position – This component of net position consists of net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Budgets and Budgetary Accounting

The Foundation has no legally adopted budget. Due to this fact, the financial statements do not include a budget and actual statement that is normally required by Governmental Accounting Standards.

D. Use of Estimates

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

E. Implementation of New Accounting Standards

The Governmental Accounting Standards Board (GASB) issued the following standards that were scheduled to take effect for the 2022-2023 fiscal year:

- GASB Statement 91, *Conduit Debt Obligations*
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*
- GASB Statement No. 99, *Omnibus 2022*

The Foundation has already adopted and implemented applicable above referenced Statements.

F. Future Changes in Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following standards with future effective dates:

- GASB Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62 – Effective for fiscal year 2023-2024
- GASB Statement No. 101, *Compensated Absences* – Effective for fiscal year 2024-2025

The Foundation will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable.

G. Cash

All highly liquid investments with a maturity of less than three months, when purchased, are considered cash equivalents.

The Foundation’s cash is considered to be cash on hand and bank deposits.

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

H. Pledges Receivables

Receivables consists of amounts due from pledges made by donors for the construction of a school building. Accounts receivable is stated at the amount management expects to collect from outstanding balances. As of June 30, 2023, a \$1,702 allowance for doubtful accounts was deemed warranted on pledges receivable.

I. Capital Assets

Capital assets, which include leasehold improvements 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. All assets purchased with a useful life greater than one year and costing more than \$1,000 are capitalized per board policy. The Foundation does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital assets of the Foundation are depreciated using the straight-line method over the useful lives of the assets. The estimated useful are as follows:

Buildings	40 Years
Building Improvements	40 Years
Equipment	5-10 Years

J. Income Tax Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Foundation has not been determined by the Internal Revenue Service to be a "private foundation" within the meaning of Section 509 (a) of the Internal Revenue Code. The Foundation has reviewed the tax positions for each of the open tax years (2019-20 through 2021-22) or expected to be taken on its 2022-23 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. The Foundation did not have any unrelated business taxable income in the fiscal year presented.

K. Fund Balance

The Governmental Accounting Standards Board has established accounting and financial reporting standards for all governments that report governmental funds. They established criteria for classifying fund balances into the following specifically defined classifications:

- **Nonspendable** fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **Restricted** fund balance includes amounts that are restricted externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. The Foundation's highest level of decision making is the Board of Directors.

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

- **Assigned** fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The Foundation has chosen to express this intent through board action and has not delegated this authority.
- **Unassigned** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications.

Note 3 – Detailed Notes on Account Balances

Cash and Cash Equivalents

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned to it. As of June 30, 2023, \$201,806 of the Foundation's bank balances of \$744,029 was exposed to custodial credit risk as:

Uninsured and uncollateralized	\$	-
Collateralized with securities held by the pledging financial institution		-
Uninsured and collateral held by the pledging bank's trust department not in the Foundation's name		201,806
TOTAL	\$	201,806
Uninsured Amount above	\$	201,806
Plus: Insured Amount		
PNC Bank		42,223
Embassy Bank CD		250,000
Peoples Security Bank and Trust Company		250,000
Bank balances		744,029
Less: Outstanding Checks		-
Plus: Deposits in Transit		126
Less: Certificate of Deposits Considered Investments by Foundation		(250,000)
TOTAL CASH PER FINANCIAL STATEMENTS	\$	494,155

Investments

As a blended component unit of a Pennsylvania public school, the Foundation is limited to certain investments. Permitted investments for Pennsylvania Schools are defined in the Public-School Code of 1949, as amended by Act 10 of 2016, as:

1. United States Treasury Bills;
2. Short-term obligations of the United States Government or its agencies or instrumentalities;
3. Deposits in savings accounts or time deposits or share accounts of institutions insured by the F.D.I.C.; and,

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

4. Obligations, participations or other instruments of any Federal Agency, instrumentality or United States government sponsored enterprise, including those issued or fully guaranteed as the principal and interest by Federal agencies, instrumentalities or United States government sponsored enterprises, if the debt obligations are rated at least "A" or its equivalent by at least two nationally recognized statistical ratings Foundations.
5. Repurchase agreements with respect to United States Treasury bills or obligations, participations or other instruments of or guaranteed by the United States or any Federal agency, instrumentality or United States government sponsored enterprise.
6. Negotiable certificates of deposit or other evidence of deposit, with a remaining maturity of three years or less, issued by a nationally or State-chartered bank, a Federal or State savings and loan association or a State-licensed branch of a foreign bank. For obligations with a maturity of one year or less, the debt obligations of the issuing institution or its parent must be rated in the top short-term rating category by at least two nationally recognized statistical ratings organizations. For obligations with a maturity in excess of one year, the senior debt obligations of the issuing institution or its parent must be rated at least "A" or its equivalent by at least two nationally recognized statistical ratings organizations.
7. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances, if the bankers' acceptances do not exceed 180 days maturity and the accepting bank is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
8. Commercial paper issued by corporations or other business entities organized in accordance with Federal or State law, with a maturity not to exceed 270 days, if the paper is rated in the top short-term category by at least two nationally recognized statistical ratings organizations.
9. Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933 and, if all of the following conditions are met:
 - The investments of the company are the authorized investments listed above.
 - The investment company is managed in accordance with 17 CFR 270.2a-7 (related to money market funds).
 - The investment company is rated in the highest category by a nationally recognized rating agency.
 - Savings or demand deposits placed in accordance with the following conditions:
 - The money is initially deposited and invested through a federally insured institution having a place of business in this Commonwealth, which is selected by the public corporation or municipal authority.
 - The selected institution arranges for the redeposit of the money in savings or demand deposits in one or more financial institutions insured by the Federal Deposit Insurance Corporation, or the account of the public corporation or municipal authority.

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

- The full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation.
- On the same date that the money is redeposited pursuant to above, the selected institution receives an amount of deposits from customers of other financial institutions equal to or greater than the amount of money initially invested through the selected institution by the public corporation or municipal authority.

As of June 30, 2023, the Foundation had the following investments:

Investments	Fair Value
Certificate of Deposit - Embassy Bank	\$ 250,000
TOTAL	\$ 250,000

Interest Rate Risk

The Charter Arts Foundation investment policy calls for investments to be sufficiently liquid to meet all operating requirements that are reasonably anticipated. Preservation of capital shall be ensured through the mitigation of interest rate risk.

Credit Risk

The Charter Arts Foundation has no investment policy that would limit its investment choices to certain credit ratings. The Foundation does ensure preservation of capital through mitigation of credit risk.

Concentration of Credit Risk

The Charter Arts Foundation places no limit on the amount the Foundation may invest in any one issuer.

Pledges Receivable

The Foundation conducted a capital campaign to obtain funds for the construction of a new school building for the Lehigh Valley Charter High School for the Arts.

Outstanding capital campaign pledges receivable at June 30, 2023 represent unconditional promises to give as follows:

Unconditional promises to give	\$ 17,019
Less: Allowance for Uncollectible Accounts	(1,702)
Net capital campaign pledges receivable	\$ 15,317

The pledges receivable is due as follows:

Within one to five years	\$ 15,317
Total Capital Campaign Pledges Receivable	\$ 15,317

Pledges receivables were discounted using an estimated 10% uncollectible amount.

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

Capital Assets

Capital asset balances and activities for the year ending June 30, 2023 were:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Capital Assets not being depreciated:				
Land	\$ 1,445,812	\$ -	\$ -	\$ 1,445,812
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED OR AMORTIZED	<u>1,445,812</u>	<u>-</u>	<u>-</u>	<u>1,445,812</u>
Capital Assets being depreciated:				
Buildings	24,789,469	-	-	24,789,469
Building Improvements	531,718	-	-	531,718
Equipment	720,373	-	-	720,373
TOTAL CAPITAL ASSETS BEING DEPRECIATED OR AMORTIZED	<u>26,041,560</u>	<u>-</u>	<u>-</u>	<u>26,041,560</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	(3,625,115)	(557,763)	-	(4,182,878)
Building Improvements	(20,613)	(13,147)	-	(33,760)
Equipment	(552,826)	(42,913)	-	(595,739)
TOTAL ACCUMULATED DEPRECIATION/AMORTIZATION	<u>(4,198,554)</u>	<u>(613,823)</u>	<u>-</u>	<u>(4,812,377)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED NET OF ACCUMULATED DEPRECIATION/AMORTIZATION	<u>21,843,006</u>	<u>(613,823)</u>	<u>-</u>	<u>21,229,183</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION/AMORTIZATION	<u>\$ 23,288,818</u>	<u>\$ (613,823)</u>	<u>\$ -</u>	<u>\$ 22,674,995</u>

Long-Term Liabilities

Long-term liability balances and activity for the year ended June 30, 2023, were:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
GOVERNMENTAL ACTIVITIES:					
General Obligation Debt:					
Construction Loans	\$ 20,038,025	\$ -	\$ 20,038,025	\$ -	\$ -
Building Loan	-	12,200,000	104,814	12,095,186	213,428
TOTAL GOVERNMENTAL ACTIVITY LONG-TERM LIABILITIES	<u>\$ 20,038,025</u>	<u>\$ 12,200,000</u>	<u>\$ 20,142,839</u>	<u>\$ 12,095,186</u>	<u>\$ 213,428</u>

Total interest paid was \$684,089

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

Note Payable

During the 2023 fiscal year, the Foundation refinanced all funding that they had obtained as part of the New Market Tax Credit (NMTC) Program into a note with Peoples Security Bank & Trust Co. The principal amount borrowed was \$12,200,000. The note has a 15-year term with a balloon payment due at the maturity date of December 23, 2037. The monthly payment of \$59,157.99 was calculated by Peoples Security Bank & Trust over a 30-year period using an interest rate of 4.07%. The annual debt service requirements are outlined in the attached long-term debt schedule.

Long-Term Debt

The general long-term debt obligations for subsequent years are:

PRINCIPAL REQUIREMENTS		
FISCAL YEAR	BUILDING LOAN	TOTAL PRINCIPAL PAYMENTS
2023-2024	\$ 213,428	\$ 213,428
2024-2025	223,770	223,770
2025-2026	233,180	233,180
2026-2027	242,987	242,987
2027-2028	251,947	251,947
2028-2033	1,433,531	1,433,531
2033-2038	9,496,343	9,496,343
TOTAL	12,095,186	12,095,186
LESS PAYABLE WITHIN ONE YEAR	213,428	213,428
LONG-TERM PRINCIPAL DUE AFTER ONE YEAR	\$ 11,881,758	\$ 11,881,758

PAYMENT REQUIREMENTS		
FISCAL YEAR	BUILDING LOAN	TOTAL PAYMENTS
2023-2024	\$ 709,896	\$ 709,896
2024-2025	709,896	709,896
2025-2026	709,896	709,896
2026-2027	709,896	709,896
2027-2028	709,896	709,896
2028-2033	3,549,479	3,549,479
2033-2038	13,842,970	13,842,970
TOTAL	\$ 20,941,929	\$ 20,941,929

CHARTER ARTS FOUNDATION
Statement of Activities and Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
Fiscal Year Ended June 30, 2023

Note 4 – Restricted Net Position

Invested in Capital Assets, Net of Related Debt

The component of this restriction in the governmental activities' column is total capital assets (net of depreciation and amortization) of \$22,674,995 less related debt of \$12,095,186.

Note 5 – Governmental Fund Balances

Detailed information about fund balances:

Nonspendable Fund Balance

Prepaid Expenses	\$	6,001
TOTAL	\$	6,001

Note 6 – Subsequent Events

Subsequent events have been evaluated through November 27, 2023, which is the date that the financial statements were completed.



November 27, 2023

Board of Directors
Charter Arts Foundation
321 East 3rd Street
Bethlehem, PA 18015

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the basic financial statements of the Charter Arts Foundation, as of and for the year ended June 30, 2023, which collectively comprise the Charter Arts Foundation's basic financial statements and have issued our report thereon dated November 27, 2023. 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.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter Arts Foundation'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 the Charter Arts Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter Arts Foundation'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Arts Foundation's financial statements are free of 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.

Respectfully submitted,

Hutchinson, Gillahan & Freeh, P.C.

November 27, 2023