

Pennsylvania Distance Learning

Charter School

Financial Statements

June 30, 2013

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Financial Statements
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Malin, Bergquist & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

3605 McKnight East Drive • Pittsburgh, PA 15237-6400 • (412) 364-9395 • Fax (412) 364-2661

2402 West 8th Street • Erie, PA 16505-4428 • (814) 454-4008 • Fax (814) 454-4018

On the web: malinbergquist.com

Independent Auditor's Report

To the Board of Trustees
Pennsylvania Distance Learning Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the General Fund of Pennsylvania Distance Learning Charter School (the "School") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the General Fund of Pennsylvania Distance Learning Charter School as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 15 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013, on our consideration of the 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 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 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 the School's internal control over financial reporting and compliance.

Malin, Bergquist & Company, LLP

Pittsburgh, Pennsylvania
December 17, 2013

Management's Discussion and Analysis

As management of the Pennsylvania Distance Learning Charter School (the "School"), a charter school, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the Pennsylvania Distance Learning Charter School for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School's financial performance as a whole. Readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School's financial performance.

The Management's Discussion and Analysis ("MD&A") is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* issued in June 2011. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In total, net assets increased \$289,577, which represents a 41 percent increase compared to 2012. This increase was primarily related to an increase in the investment in capital assets.
- Total assets decreased \$635,134, which represents a 37 percent decrease from 2012. This decrease is primarily due to the utilization of cash for the payment of the prior year management fees payable.
- Total liabilities decreased \$924,711, which represents a 90 percent decrease from 2012. The decrease in liabilities is a direct result of the decrease in management fees payable at year end.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. These basic financial statements comprise three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements.

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 private-sector business.

Government-Wide Financial Statements (Continued)

The Statement of Net Position presents information on all of the School's assets and liabilities, and the difference between the two is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the School's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the School's net position changed during the most recent fiscal 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 flow changes in future fiscal periods (e.g., items purchased but not yet paid for).

The School's governmental activities include Instruction and Support Services.

The Government-Wide Financial Statements can be found on pages 11-12 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the School's funds for the current year are governmental funds.

Governmental Funds

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

The School maintains only a General Fund, which is considered a major fund. Information is presented in the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

The School prepares a General Fund budget. Statements have been provided that compare actual results to this budget.

Government-Wide Financial Analysis

The Statement of Net Position and the Statement of Activities answer the question of how the School performed financially during the fiscal year ended June 30, 2013. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$999,022 at the close of its fiscal year.

Statement of Net Position

The Statement of Net Position includes all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

Table 1 provides a summary of the School's Net Position for fiscal years 2013 and 2012:

(Table 1)
Summary Statement of Net Position

	<u>2013</u>	<u>2012</u>
Current Assets	\$ 772,943	\$ 1,736,045
Noncurrent Assets	<u>327,968</u>	<u>-</u>
Total Assets	<u>\$ 1,100,911</u>	<u>\$ 1,736,045</u>
Current Liabilities	<u>\$ 101,889</u>	<u>\$ 1,026,600</u>
Net Investment in Capital Assets	\$ 317,862	\$ -
Unrestricted Net Assets	<u>681,160</u>	<u>709,445</u>
Total Net Position	<u>\$ 999,022</u>	<u>\$ 709,445</u>

Total assets decreased by \$635,134. This decrease was due to a decrease in the School's cash balances, along with a decrease in the School's district receivables outstanding at June 30, 2013. Liabilities decreased by \$924,711. This decrease is due to a decrease in management fees payable.

Pennsylvania Distance Learning Charter School
Management's Discussion and Analysis

Capital Assets

At the end of fiscal year 2013, the School had \$317,862 in net capital assets, which represented an increase of \$317,862 from 2012. Table 2 shows the respective balance for fiscal year 2012.

(Table 2)
Capital Assets (Net of Depreciation)

	<u>2013</u>	<u>2012</u>
Capital Assets, net	<u>\$ 317,862</u>	<u>\$ -</u>

For more information on capital assets, see Note 1 in the Notes to the Basic Financial Statements.

Pennsylvania Distance Learning Charter School
Management's Discussion and Analysis

Statement of Activities

(Table 3)
Change in Net Position

	<u>2013</u>	<u>2012</u>
General Revenues:		
District Funding	\$ 3,760,782	\$ 3,363,082
Federal Non-Operating Grants	339,503	171,709
State Reimbursement	106,397	61,864
Other	1,106	242
	<u>4,207,788</u>	<u>3,596,897</u>
Total Revenues		
Expenses:		
Instruction	2,193,715	2,163,683
Support Services	1,560,762	1,410,286
Non Instructional	8,363	-
Depreciation	151,310	-
Interest on Debt	4,061	-
	<u>3,918,211</u>	<u>3,573,969</u>
Total Expenses		
Change in Net Position	<u>\$ 289,577</u>	<u>\$ 22,928</u>

Table 3 shows the changes in net position for the fiscal years ending June 30, 2013 and 2012, as well as a listing of revenues and expenses.

The reason for the increase in overall revenues in 2013 was primarily due to an increase in enrollment from 2012. The School's expenses increased primarily as a result of purchasing capital assets.

Pennsylvania Distance Learning Charter School
 Management's Discussion and Analysis

Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual – General Fund

(Table 4)
Change in Net Position, Budget and Actual

	<u>Budget</u>	<u>Actual</u>
General Revenues:		
District Funding	\$ 3,502,500	\$ 3,760,782
Federal Non-Operating Grants	144,900	339,503
State Reimbursement	-	106,397
Other	-	1,106
	<u>3,647,400</u>	<u>4,207,788</u>
Total Revenues		
Expenses:		
Instruction	2,038,666	2,193,715
Support Services	1,046,138	1,560,762
Non Instructional	-	8,363
Capital Expenditures	249,244	151,310
Interest on Debt	-	4,061
	<u>3,334,048</u>	<u>3,918,211</u>
Total Expenses		
Change in Net Position	<u>\$ 313,352</u>	<u>\$ 289,577</u>

The positive budget variance in revenues during 2013 was a result of slightly higher student enrollment during the fiscal year. The School's expenses also saw an increase, primarily as a result of purchasing capital assets.

Pennsylvania Distance Learning Charter School
Management's Discussion and Analysis

Financial Analysis of the School's Funds

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General Fund

In particular, unassigned fund balance is a useful measure of the School's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the School's general fund reported an ending Unassigned Fund Balance of \$681,160. This represents approximately 16% of the total year's funding, which will be available to the School in subsequent years.

Long Term Debt

As of June 30, 2013, the School has no long-term debt.

Current Financial Issues

I. District Funding Receivable and Management Company Support

In Pennsylvania, "cyber" charters (charter schools that provide distance learning education) are funded on the number of students enrolled in the School through payments received from the resident school district of the enrollee. Monies are paid by the resident school district based on an invoice that is issued by the School. The invoices are calculated differently for each student based on a combination of student entry date, published "tuition" rate for a particular District, and the number of billing periods remaining in the year.

The School billed 210 various Districts in fiscal year 2013. By year end, the School had collected 93% of its billed revenues, as opposed to an 81% collection rate in fiscal year 2012.

Pennsylvania Distance Learning Charter School
Management's Discussion and Analysis

Current Financial Issues (Continued)

II. Enrollment

For the school year ended June 30, 2013, the School enrolled 410 students, generating \$3.7 million in billed revenues. In the coming year, enrollment is expected to increase to 450 students.

III. Miscellaneous Statistics

The following represents some miscellaneous financial statistics of the School during the 2013 fiscal year:

Number of Districts billed: 210

Number of Students served: 410

(Regular Education Funding)

Lowest District Funding Amount: \$6,406

Highest District Funding Amount: \$16,390

Average District Funding Amount: \$9,245

(Special Education Funding)

Lowest District Funding Amount: \$12,152

Highest District Funding Amount: \$41,595

Average District Funding Amount: \$18,951

Requests for Information

This financial report is designed to provide a general overview of the Pennsylvania Distance Learning Charter School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Fiscal Officer c/o Pennsylvania Distance Learning Charter School, 2100 Corporate Drive, Suite #500, Wexford, PA 15090.

Pennsylvania Distance Learning Charter School
Statement of Net Position
As of June 30, 2013

	Governmental Activities
<u>Assets</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	289,082
District Funding Receivable	288,220
Grants Funding Receivable	142,144
Prepaid Expenses	50,497
Other Receivables	3,000
Total Current Assets	772,943
<u>Noncurrent Assets</u>	
Capital Assets (net of depreciation)	317,862
Security Deposits	10,106
Total Assets	\$ 1,100,911
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 31,265
Accrued Expenses	70,624
Total Current Liabilities	101,889
<u>Net Position</u>	
Net Investment in Capital Assets	317,862
Unrestricted Net Assets	681,160
Total Net Position	999,022
Total Liabilities and Net Position	\$ 1,100,911

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

Pennsylvania Distance Learning Charter School
Statement of Activities
For the Year Ended June 30, 2013

<u>Functions/ Programs</u>	<u>Program Revenues</u>			Net (Expense) Revenue and Change in Net Assets	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental Activities:					
Instruction	\$ 2,193,715	\$ -	\$ -	\$ -	\$ (2,193,715)
Support Services	1,560,762	-	-	-	(1,560,762)
Non-instructional	8,363	-	-	-	(8,363)
Depreciation	151,310				(151,310)
Interest on Debt	4,061	-	-	-	(4,061)
Total Governmental Activities	\$ 3,918,211	\$ -	\$ -	\$ -	(3,918,211)

General Revenues:

District funding	3,760,782
Federal entitlement grants	339,503
State reimbursements	106,397
Other	1,106
Total General Revenues	4,207,788
Change in Net Position	289,577
Net Position, Beginning	709,445
Net Position, Ending	\$ 999,022

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

**Pennsylvania Distance Learning Charter School
Balance Sheet - Governmental Funds
As of June 30, 2013**

	General
<u>Assets</u>	
Cash and Cash Equivalents	\$ 289,082
District Funding Receivable	288,220
Grants Funding Receivable	142,144
Prepaid Expenses	50,497
Security Deposits	10,106
Other Receivables	3,000
Total Assets	\$ 783,049
 <u>Liabilities</u>	
Accounts Payable	\$ 31,265
Accrued Expenses	70,624
Total Liabilities	101,889
 <u>Fund Balance</u>	
Unassigned	681,160
Total Fund Balance	681,160
Total Liabilities and Fund Balance	\$ 783,049

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

Pennsylvania Distance Learning Charter School
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General
Revenues	
Local revenues	\$ 3,761,888
State revenues	106,397
Federal revenues	339,503
	4,207,788
Total Revenues	4,207,788
Expenditures	
Instruction	2,193,715
Support Services	1,560,762
Non-Instructional	8,363
Capital Expenses	469,172
Interest on Debt	4,061
	4,236,073
Total Expenditures	4,236,073
Net Change in Fund Balance	(28,285)
Fund Balance--July 1, 2012	709,445
Fund Balance--June 30, 2013	\$ 681,160

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

Pennsylvania Distance Learning Charter School
Statement of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual - General Fund
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues				
Local Revenues	\$ 3,502,500	\$ 3,502,500	\$ 3,761,888	\$ 259,388
State Revenues	-	-	106,397	106,397
Federal Revenues	144,900	144,900	339,503	194,603
Total Revenues	<u>3,647,400</u>	<u>3,647,400</u>	<u>4,207,788</u>	<u>560,388</u>
Expenditures				
Instruction	2,038,666	2,038,666	2,193,715	(155,049)
Support Services	1,046,138	1,046,138	1,560,762	(514,624)
Non-Instructional	-	-	8,363	(8,363)
Capital Expenses	249,244	249,244	469,172	(219,928)
Interest on Debt	-	-	4,061	(4,061)
Total Expenditures	<u>3,334,048</u>	<u>3,334,048</u>	<u>4,236,073</u>	<u>(902,025)</u>
Net Change in Fund Balance	313,352	313,352	(28,285)	(341,637)
Fund Balance--July 1, 2012	<u>709,445</u>	<u>709,445</u>	<u>709,445</u>	<u>-</u>
Fund Balance--June 30, 2013	<u>\$ 1,022,797</u>	<u>\$ 1,022,797</u>	<u>\$ 681,160</u>	<u>\$ (341,637)</u>

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

**Pennsylvania Distance Learning Charter School
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
As of June 30, 2013**

Total Fund Balances per Fund Financial Statements	\$ 681,160
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the Statement of Net Position.	<u>317,862</u>
Net Position for Governmental Activities	<u><u>\$ 999,022</u></u>

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

**Pennsylvania Distance Learning Charter School
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2013**

Net Change in Total Fund Balances per Fund Financial Statements	\$	(28,285)
<p>Capital outlays are reported as expenditures in this fund financial statement because they are current financial resources, but they are presented as assets in the Statement of Activities and depreciated over their estimated economic lives.</p>		
		469,172
<p>Depreciation expense on governmental capital assets are included in the governmental activities in the Statement of Activities.</p>		
		<u>(151,310)</u>
Change in Net Position of Governmental Activities		<u><u>\$ 289,577</u></u>

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pennsylvania Distance Learning Charter School (the “School”) is a Pennsylvania corporation that began operations on July 1, 2004, pursuant to the PA Act 22 of 1997, to form and operate a cyber charter school within the Commonwealth of Pennsylvania. The School is an exempt organization for Federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code.

The School’s financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School’s more significant accounting policies are described below.

A. REPORTING ENTITY

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organization for which the School is financially accountable is considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the School.

Based on the application of these criteria, the School does not include additional organizations within its reporting entity, nor is the School a component unit of another entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of inter-fund activity has been eliminated from these statements. Governmental activities are normally supported by intergovernmental revenues.

The Statement of Net Position presents the financial condition of the School’s governmental activities at year-end. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported in separate columns in the fund financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

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 both measurable and available. Revenues are considered to be *available* when they are collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within nine months of the end of the current fiscal period, due to the local education agencies and Pennsylvania Department of Education tuition payment policies. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government.

The School's accounts are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The School reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in the bank, and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable

The School considers the district funding and grant funding receivables to be fully collectible. Accordingly, no allowance for uncollectible accounts is required. If amounts become uncollectible based on management’s periodic review, they will be written off at the time deemed uncollectible.

Capital Assets

For purposes of recording capital assets, the Board has a \$5,000 capitalization threshold.

As of June 30, 2013, the School’s capital assets had a net book value of \$317,862. The School’s capital assets are capitalized at cost and depreciated using the straight-line method over the useful lives of the assets; five years for “Furniture and Fixtures” and three years for “Computers and Software”. Capital assets at June 30, 2013 consisted of the following:

Furniture and fixtures	\$ 38,105
Computers and software	<u>431,067</u>
Capital assets, at cost	469,172
Depreciation expense	<u>(151,310)</u>
Capital assets, net of depreciation	<u><u>\$ 317,862</u></u>

Change in Accounting Principle

For 2013, the School implemented Governmental Accounting Standards Board (GASB) Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated into the School’s financial statements; however, there was no effect on beginning net position/fund balance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (CONTINUED)

Net Position

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The School's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance

In the fund financial statements, governmental funds report reservations of the fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The School evaluated its June 30, 2013 financial statements for subsequent events through December 17, 2013, the date the financial statements were available to be issued. The School is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

Annual budgets are adopted for all funds on a basis consistent with GAAP. All annual appropriations lapse at fiscal year end. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

BUDGET INFORMATION (CONTINUED)

Budgets are required for all funds by Pennsylvania State Statute. The budget includes proposed expenditures and the means of financing them. As required by law, prior to July 31, the budget is adopted by formal resolution.

Formal budgetary integration is employed as a management control device during the year for the governmental funds. The appropriated budget is prepared by fund. The legal level of control is the fund level.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Trustees.

Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances and reserves as established by the Board of Trustees. Variances between budget and actual result from the non-expenditure of reserves, nonoccurrence of anticipated events, and normal operating variances.

The Board of Trustees may authorize supplemental appropriations during the year.

NOTE 3 – CASH AND CASH EQUIVALENTS

DEPOSITS

Under Section 440.1 of the Public School Code of 1949, as amended, the School is permitted to invest funds consistent with sound business practices in the following types of investments:

- Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth, or (c) any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- Deposits in savings accounts, time deposits, or share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 3 – CASH AND CASH EQUIVALENTS (CONTINUED)

DEPOSITS (CONTINUED)

The School’s deposit policy adheres to state statutes and prudent business practice. As of June 30, 2013, the School’s deposits are maintained in demand deposit accounts. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the School’s policy. Pursuant to Act 72 of the Pennsylvania State Legislature, a depository must pledge assets to secure state and municipal deposits. The pledged assets must at least be equal to the total amount of such assets required to secure all of the public deposits at the depository and may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian.

At June 30, 2013, the School’s deposits can be categorized to indicate the level of risk assumed. The School had no investments at June 30, 2013 that required disclosure by risk category. The risk categories are as follows:

Category 1 – insured or collateralized with securities held by the School or by its agent in the School’s name.

Category 2 – collateralized with securities held by the pledging financial institution’s trust department or agent in the School’s name.

Category 3 – collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the School’s name.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
<u>Deposits</u>					
June 30, 2013	<u>\$ 260,092</u>	<u>\$ -</u>	<u>\$ 29,490</u>	<u>\$ 289,582</u>	<u>\$ 289,082</u>

NOTE 4 – DISTRICT FUNDING RECEIVABLE

The School invoices the resident school district of each enrolled student based on reimbursement rates established by the Pennsylvania Department of Education. The “District Funding Receivable” on the Statement of Net Position and Balance Sheet – Governmental Funds represents the amounts invoiced to the various school districts, but not collected as of June 30, 2013, reduced by management’s estimate of uncollectible amounts based on known circumstances and past experience. The amount of the receivable at year end was \$288,220. No allowance has been recorded as of June 30, 2013, based on management’s estimate of uncollectible amounts.

NOTE 5 – GRANTS FUNDING RECEIVABLE

The School has recorded a grant receivable in the amount of \$142,144 to account for the portion of its federal grant awards allocated to the School, but not received as of June 30, 2013.

NOTE 6 – MANAGEMENT AGREEMENT

Effective July 1, 2012, the School entered into a one-year agreement with Charter Choices, Inc., a Pennsylvania Corporation. Effective July 1, 2013, the School entered into a three-year agreement with Charter Choices, Inc. Under this agreement, Charter Choices, Inc. will provide various accounting and compliance reporting services. The School also has other contracts in place with various vendors for services including back-office information technology (IT), elementary curriculum use, and course website development.

NOTE 7 – DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The School contributes to the Public School Employees' Retirement System of Pennsylvania ("PSERS"), a cost-sharing, multiple-employer defined benefit pension plan administered by PSERS. PSERS provides retirement and disability benefits, legislative mandated ad hoc cost of living adjustments, and health care insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended, 24 Pa. C.S. 8101-8535) assigns the authority to establish and amend benefit provisions to the PSERS Board of Trustees. PSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. That report may be obtained by writing to Public School Employees' Retirement System, P.O. Box 125, Harrisburg, PA 17108-0125.

FUNDING POLICY

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth of Pennsylvania. The contribution rate for active members ranges from 5.25% to 7.50% of the member's compensation, depending on the employee's class of membership and when they joined PSERS. Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2013, the rate of employer contributions was 12.36% of covered payroll. The School's required contributions to PSERS for the years ended June 30, 2013, 2012 and 2011 were \$158,534, \$120,180 and \$79,802 respectively, of which, 70% has been contributed. Of the required contributions noted above, \$100,928, \$56,157 and \$42,494, respectively, were reimbursed to the School by the Commonwealth of Pennsylvania.

NOTE 8 – RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School carries commercial insurance for such risks. There has been no significant reduction in insurance coverage regarding the School's policies.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL
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NOTE 9 – COMMITMENTS AND CONTINGENCIES

GRANTS

The School has received Federal and/or State grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under terms of the grant.

NOTE 10 – LEASE OBLIGATIONS

The School leases its office space located in Wexford, Pennsylvania. The lease term is sixty-three months, commencing July 1, 2012, including three months of free rent. Rent expense for the year ended June 30, 2013 totaled \$90,954. The minimum rental payments for the School's office lease are as follows:

Year ending:

June 30, 2014	\$	174,941
June 30, 2015		179,820
June 30, 2016		179,820
June 30, 2017		179,820
June 30, 2018		44,955



Malin, Bergquist & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

3605 McKnight East Drive • Pittsburgh, PA 15237-6400 • (412) 364-9395 • Fax (412) 364-2661

2402 West 8th Street • Erie, PA 16505-4428 • (814) 454-4008 • Fax (814) 454-4018

On the web: malinbergquist.com

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*

To the Board of Trustees
Pennsylvania Distance Learning Charter School

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 of the General Fund of Pennsylvania Distance Learning Charter School (the "School") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pennsylvania Distance Learning 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 the Pennsylvania Distance Learning Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pennsylvania Distance Learning 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.

(Continued)



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*

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pennsylvania Distance Learning 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.

Malin, Bergquist & Company, LLP

Pittsburgh, Pennsylvania
December 17, 2013