

PENNSYLVANIA DISTANCE
LEARNING CHARTER SCHOOL

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2018



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October 29, 2018

To the Board of Trustees
Pennsylvania Distance Learning Charter School
Wexford, Pennsylvania

Independent Auditor's Report

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, 2018, 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 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.

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.

Opinions

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, 2018, and the respective changes in financial position 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 on pages 3 to 9, budgetary comparison information on page 28, and schedule of proportionate share of the net pension liability on page 29 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 October 29, 2018, 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 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 the 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 the School's internal control over financial reporting and compliance.

Hill, Barth & King LLC

Certified Public Accountants

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, 2018. 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 June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

- In accordance with GASB 68, the school is reporting its share of the June 30, 2017 total PSERS pension liability calculated at \$6,914,000.
- In total, net position increased \$861,007, which represents a 35 percent increase compared to 2017. This increase was primarily related to an increase in student population.
- Total assets increased \$1,730,964, which represents a 41 percent increase from 2017. This increase was due to increases in the School's cash and certificates of deposit balances, grant receivables and capital assets.
- Total liabilities increased \$400,702, which represents a 5 percent increase from 2017. The increase in liabilities is primarily a result of the increase in accounts payable, accrued expenses and district liabilities.

Overview of the Financial Statements

This discussion and analysis are 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.

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 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 paid for).

The governmental activities of the School include Instruction and Support Services.

The Government-Wide Financial Statements can be found on pages 10-11 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 funds of the School for the current year are governmental funds.

Governmental Funds

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available to 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

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, liabilities exceeded assets by \$1,578,931 at the close of its fiscal year.

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during fiscal year 2018. This statement 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.

Pennsylvania Distance Learning Charter School
 Management's Discussion and Analysis

Table 1 provides a summary of the School's Net Assets for the fiscal years 2018 and 2017:

(Table 1)
Summary Statements of Net Position

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 5,200,688	\$ 3,636,289
Noncurrent Assets	<u>709,744</u>	<u>543,179</u>
Total Assets	<u>5,910,432</u>	<u>4,179,468</u>
Deferred Outflows of Resources Related to Pensions	<u>1,672,662</u>	<u>2,180,917</u>
Current Liabilities	1,705,025	1,131,323
Noncurrent Liabilities	<u>6,914,000</u>	<u>7,087,000</u>
Total Liabilities	<u>8,619,025</u>	<u>8,218,323</u>
Deferred Inflows of Resources Related to Pensions	<u>543,000</u>	<u>582,000</u>
Investment in Capital Assets	699,638	533,073
Unrestricted Deficit	<u>(2,278,569)</u>	<u>(2,973,011)</u>
Total Net Position	<u>\$ (1,578,931)</u>	<u>\$ (2,439,938)</u>

Total assets increased \$1,730,964, which represents a 41 percent increase from 2017. This increase was due to increases in the School's cash and certificates of deposit balances, grant receivables and capital assets. The increase in liabilities is primarily a result of the increase in accounts payable, accrued expenses and district liabilities.

Capital Assets

At the end of fiscal year 2018, the School had \$699,638 in capital assets which represented an increase of \$166,565 from 2017. Table 2 shows the respective balance for fiscal year 2018.

(Table 2)

	<u>2018</u>	<u>2017</u>
Capital Assets, net	<u>\$ 699,638</u>	<u>\$ 533,073</u>

For more information on capital assets, see Note 2 in the Notes to the Basic Financial Statements.

Pennsylvania Distance Learning Charter School
 Management's Discussion and Analysis

Statement of Activities

(Table 3)
Changes in Net Position

	<u>2018</u>	<u>2017</u>
General Revenues:		
District Funding	\$ 11,801,995	\$ 8,751,302
Federal Entitlement Grants	550,849	356,420
State Reimbursement	22,223	19,812
Other	19,033	746
	<u>12,394,100</u>	<u>9,128,280</u>
Total General Revenues		
Expenses:		
Instruction	7,439,393	5,186,378
Support Services	3,782,958	3,339,430
Capital Expenses	310,742	142,369
	<u>11,533,093</u>	<u>8,668,177</u>
Total Expenses		
Change in Net Position	<u>\$ 861,007</u>	<u>\$ 460,103</u>

Table 3 shows the changes in net position for fiscal years 2018 and 2017, as well as a listing of revenues and expenses.

The reason for the increase in overall revenues in 2018 was primarily due to an increase in enrollment from 2017. The School's expenses increased primarily as a result of increased enrollment from 2017. As student enrollment increases, operating costs will increase proportionately.

**Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual – General Fund
 For the Year Ended June 30, 2018**

(Table 4)
Change in Net Fund Balances, Budget and Actual

	<u>Budget</u>	<u>Actual</u>
Revenues:		
Local Revenues	\$ 9,271,668	\$ 11,821,028
State Revenues	20,481	22,223
Federal Revenues	411,064	550,849
	<u>9,703,213</u>	<u>12,394,100</u>
Total Revenues		
Expenditures:		
Instruction	5,324,480	7,238,988
Support Services	3,982,359	3,687,108
Capital Expenses	263,100	477,307
	<u>9,569,939</u>	<u>11,403,403</u>
Total Expenses		
Change in Fund Balance	<u>\$ 133,274</u>	<u>\$ 990,697</u>

- The positive budget variance in revenues during 2018 was due primarily to the increase in enrollment billing.
- The actual expenses were greater than budgeted due mainly to the increase in student population. Notable expense-side variances include:
 - Personnel costs were approximately \$101,000 less than budgeted primarily due to delayed hiring, reduced health insurance and new employees participating in the alternative retirement plan.
 - Total Contracted Services were approximately \$342,000 greater than budgeted due to an increase in special education costs.
 - Equipment was approximately \$56,000 greater than budgeted due to the increase of student enrollment. Computers and technology purchases increased proportionately with increased student enrollment.

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 \$1,056,506. This represents approximately 8.5% of the total year's funding, which will be available to the School in subsequent years.

Pennsylvania Distance Learning Charter School
Management's Discussion and Analysis

Long-Term Debt

As of June 30, 2018, the School has no long-term debt.

Current Financial Issues

I. District Funding Receivable

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 289 various Districts in fiscal year 2018. By year end, the School had collected approximately 97% of its billed revenues, as opposed to a 95% collection rate in fiscal year 2017.

II. Enrollment

For the school year ended June 30, 2018, the School had a final Average Daily Membership (ADM) of 832 students, generating \$11.82 million in billed revenues. In the coming year, enrollment is expected to increase to 900.

III. Miscellaneous Statistics

The following represents some miscellaneous financial statistics of the School during the 2018 fiscal year:

Number of Districts billed: 289

Number of Students served: 1,011 (had enrollment days at some point during the year)

(Regular Education Funding)

Lowest District Funding Amount:	\$	7,598
Highest District Funding Amount:	\$	18,470
Average District Funding Amount:	\$	10,978

(Special Education Funding)

Lowest District Funding Amount:	\$	15,299
Highest District Funding Amount:	\$	48,198
Average District Funding Amount:	\$	23,882

Pennsylvania Distance Learning Charter School
Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The fiscal and operational stability of our Commonwealth's charter schools is directly linked to the State of Pennsylvania's Budget and shifting political realities. This issue manifests itself most clearly in the way that the state determines each charter school's per pupil allotment which is calculated by student's school district of residence and form PDE-363. The PDE 363 uses a "state-determined" formula to calculate per pupil allotments. A host of anti-charter legislation proposed by the governor and currently making its way through the Pennsylvania House and Senate threatens to further reduce charter school funding.

Though the charter school concept is widely recognized as a viable and necessary educational model, the issue concerning how charter schools are funded will likely remain controversial in the foreseeable future.

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

June 30, 2018

	<u>Governmental Activities</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 3,288,033
Certificates of Deposit	1,252,940
District Funding Receivable (Net of Allowance)	329,147
Grants Funding Receivable	286,153
Other Receivable	5,258
Prepaid Expenses	39,157
Total Current Assets	<u>5,200,688</u>
<u>Noncurrent Assets</u>	
Capital Assets (Net of Depreciation)	699,638
Security Deposits	10,106
Total Noncurrent Assets	<u>709,744</u>
Total Assets	<u>5,910,432</u>
<u>Deferred Outflows of Resources</u>	
Deferred Outflows of Resources Related to Pensions	<u>1,672,662</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts Payable	370,467
Accrued Expenses	559,144
Deferred Revenue	10,902
District Funding Payable	764,512
Total Current Liabilities	1,705,025
<u>Noncurrent Liability</u>	
Net Pension Liability	<u>6,914,000</u>
Total Liabilities	<u>8,619,025</u>
<u>Deferred Inflows of Resources</u>	
Deferred Inflows of Resources Related to Pensions	<u>543,000</u>
<u>Net Position</u>	
Net Investment in Capital Assets	699,638
Unrestricted Net Deficit	<u>(2,278,569)</u>
Total Net Position	<u>\$ (1,578,931)</u>

See accompanying notes to financial statements

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

<u>Functions/ Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$ 7,439,393	-	-	\$ (7,439,393)
Support Services	3,782,958	-	-	(3,782,958)
Depreciation	310,742	-	-	(310,742)
Total Governmental Activities	\$ 11,533,093	-	-	(11,533,093)

General Revenues:

District Funding	11,801,995
Federal Entitlement Grants	550,849
State Reimbursements	22,223
Other	19,033

Total General Revenues 12,394,100

Change in Net Position 861,007

Net Position, Beginning (2,439,938)

Net Position, Ending \$ (1,578,931)

See accompanying notes to financial statements

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	<u>General</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 3,288,033
Certificates of Deposit	1,252,940
District Funding Receivable	329,147
Federal Receivable	286,153
Other Receivable	5,258
Prepaid Expenses	39,157
Security Deposits	10,106
	<hr/>
Total Assets	\$ 5,210,794
	<hr/> <hr/>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 370,467
Deffered Revenues	10,902
Accrued Expenses	559,144
District Funding Payable	764,512
	<hr/>
Total Liabilities	1,705,025
	<hr/>
<u>Fund Balances</u>	
Nonspendable	49,263
Committed	2,400,000
Unassigned	1,056,506
	<hr/>
Total Fund Balances	3,505,769
	<hr/>
Total Liabilities and Fund Balances	\$ 5,210,794
	<hr/> <hr/>

See accompanying notes to financial statements

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2018

	<u>General</u>
Revenues	
Local Revenues	\$ 11,821,028
State Revenues	22,223
Federal Revenues	550,849
	<hr/>
Total Revenues	12,394,100
	<hr/>
Expenditures	
Instruction	7,238,988
Support Services	3,687,108
Capital Expenses	477,307
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Total Expenditures	11,403,403
	<hr/>
Net Change in Fund Balances	990,697
Fund Balances--July 1, 2017	2,515,072
	<hr/>
Fund Balances--June 30, 2018	\$ 3,505,769
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See accompanying notes to financial statements

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2018

Total Fund Balances per Fund Financial Statements	\$ 3,505,769
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.	699,638
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the fund financial statement.	(6,914,000)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred inflows of resources related to pensions	(543,000)
Deferred outflows of resources related to pensions	1,672,662
	<hr/>
Net Position for Governmental Activities	<u><u>\$ (1,578,931)</u></u>

See accompanying notes to 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**

June 30, 2018

Net Change in Fund Balances per Fund Financial Statements	\$ 990,697
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.	477,307
Depreciation expense on governmental capital assets are included in the governmental activities in the Statement of Activities.	(310,742)
Governmental funds report School pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	<u>(296,255)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 861,007</u></u>

See accompanying notes to financial statements

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1: ORGANIZATION

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Government-Wide and Fund Financial Statements

The financial statements of the School 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 more significant accounting policies of the School are described below.

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 School. Governmental activities are normally supported by tuition and intergovernmental revenues.

The Statement of Net Position presents the financial condition of the governmental activities of the School at year-end. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segments 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.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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 current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Tuition and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability period for this revenue source (within 90 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 90 days of year-end). 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 School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund. There are no other funds reported by the School.

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.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 June 30, 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.

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.

Assets, Liabilities, and Net Position or Fund Balance

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.

Prepaid Expenses

In both the government-wide and fund financial statements, prepaid expenses are recorded as assets in the specific governmental fund in which future benefits will be derived.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Position or Fund Balance (Continued)

Capital Assets

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

As of June 30, 2018, the School's capital assets had a net book value of \$699,638. Capital assets of the School are 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." The depreciation expense for the year ended June 30, 2018 was \$310,742. Capital assets at June 30, 2018 consisted of the following:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2018</u>
Furniture and Fixtures	\$ 93,281	\$ -	\$ -	\$ 93,281
Computers and Software	659,628	477,307	(252,325)	884,610
Capital Assets, at Cost	752,909	477,307	(252,325)	977,891
Less Accumulated Depreciation	(219,836)	(310,742)	252,325	(278,253)
Capital Assets, Net of Depreciation	<u>\$ 533,073</u>	<u>\$ 166,565</u>	<u>\$ -</u>	<u>\$ 699,638</u>

Government-Wide Net Position

Government-wide net position is divided into three components:

- Net investment in capital assets - consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position - consist of assets that are restricted by the School's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted net position - all other net position is reported in this category.

Fund Statements - Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, fund balance reporting and governmental fund type definitions, the School classified governmental fund balances as follows:

- Nonspendable - amounts that cannot be spent because they are either (1) not in a spendable form or (2) legally or contractually required to remain intact.
- Restricted - the part of 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. Enabling legislation authorizes the government to assess, levy, change or mandate and includes a legally enforceable requirement on the use of these funds.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Statements - Fund Balance (Continued)

- Committed - the portion of fund balance that can only be used for specific purposes as a result of formal action by the School's highest level of authority, the school board. Once the item is committed, it cannot be used for any other purpose unless changed by the same procedures used to initially constrain the money, which is the passage of a motion. The School committed \$500,000 for future PSERS contribution expenditures associated with the increasing mandated annual state employer contribution. An additional \$700,000 is committed to future capital expenditures and \$1,200,000 is committed to future operating costs. The total committed funds as of June 30, 2018 are \$2,400,000.
- Assigned - reflects the School's intent to use the money for a specific purpose but is not considered restricted or committed. Fund balance may be assigned by the chief executive officer.
- Unassigned - represents the part of spendable fund balance that has not been categorized as restricted, committed or assigned. The general fund is the only fund permitted to have a positive unassigned fund balance.

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.

NOTE 3: CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

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.

The deposit policy of the School adheres to state statutes and prudent business practice. Deposits of the School as of June 30, 2018 are maintained in demand deposit and time deposit accounts. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the School. 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.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 3: CASH, CASH EQUIVALENTS, AND CERTIFICATES OF DEPOSIT (CONTINUED)

Deposits (Continued)

At June 30, 2018, the deposits of the School can be categorized to indicate the level of risk assumed. The School had no investments at June 30, 2018 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, 2018	<u>\$ 1,750,000</u>	<u>\$ -</u>	<u>\$ 3,111,185</u>	<u>\$ 4,861,185</u>	<u>\$ 4,540,973</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, 2018, reduced by management's estimates of uncollectible amounts based on known circumstances and past experience. The amount of the receivable at year end was \$329,147. An allowance of \$123,349 has been recorded as of June 30, 2018, based on management's estimates of uncollectible amounts.

NOTE 5: GRANTS FUNDING RECEIVABLE

The School has recorded a grant receivable in the amount of \$286,153 to account for the portion of its federal grant awards allocated to the School, but not received as of June 30, 2018.

NOTE 6: AGREEMENTS

The School entered into a three-year agreement with Charter Choices, Inc. effective July 1, 2016. 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.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN

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 (PSERS, System) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms investments are reported at fair value.

The School follows GASB Statement No. 68, which addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts and also establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures.

General Information about the Pension Plan

Plan Description

PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. 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) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 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. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% 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.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

General Information about the Pension Plan (Continued)

Benefits Provided (Continued)

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.

Member Contributions

Active members who joined the System 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 System 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 System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011, automatically contribute at the Membership 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 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions

The School's contractually required contribution rate for fiscal year ended June 30, 2018 was 32.57% 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 were \$671,367 for the year ended June 30, 2018.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the School reported a liability of \$6,914,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. 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, 2017, the School's proportion was .0140 percent, which was a decrease of .0003 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized pension expense of \$671,367. At June 30, 2018, 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>
Net Difference Between Expected and Actual Investment Earnings	\$ -	\$ 543,000
Changes in Proportions	1,000,000	-
Difference Between Employer Contributions and Proportionate Share of Total Contributions	18,404	-
Contributions Subsequent to the Measurement Date	<u>654,258</u>	<u>-</u>
	<u>\$ 1,672,662</u>	<u>\$ 543,000</u>

\$654,258 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:

2019	\$ 329,687
2020	224,425
2021	(31,248)
2022	(47,762)
2023	302

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions

The total pension liability as of June 30, 2017 was determined by rolling forward the System's total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 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 growth - Effective average of 5.00%, comprised of inflation of 2.75%, and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Public Equity	20.0 %	5.1 %
Fixed Income	36.0 %	2.6 %
Commodities	8.0 %	3.0 %
Absolute Return	10.0 %	3.4 %
Risk Parity	10.0 %	3.8 %
Infrastructure/MLPs	8.0 %	4.8 %
Real Estate	10.0 %	3.6 %
Alternative Investments	15.0 %	6.2 %
Cash	3.0 %	0.6 %
Financing (LIBOR)	(20.0) %	1.1 %
	<u>100.0 %</u>	

The above was the Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
School's Proportionate Share of Net Pension Liability	\$ 8,511,000	\$ 6,914,000	\$ 5,566,000

Pension Plan Fiduciary Net Position

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

NOTE 8: DEFINED CONTRIBUTION RETIREMENT PLAN

As an alternative to the PSERS plan, the School offers a 403(b) plan which covers all new employees. PenServ Plan Services, Inc. is designated as the plan administrator. For participating employees, the School matches 100% or the first 5% of mandatory employee pre-tax deferrals to the plan. The plan's initial effective date was July 1, 2015, but the plan was amended effective March 1, 2017. The amendment stated that employees hired after July 1, 2015 and previously participated in PSERS had a right to choose to participate in this plan or participate in PSERS. Also, employees hired after March 1, 2017 who previously participated in PSERS and have not received a break of greater than 60 days in PSERS contributions prior to being hired at the School had the right to choose between participating in the 403(b) plan or continuing to participate in PSERS. Employees are immediately 100% vested in employer contributions. Employee and employer contributions to the plan were approximately \$122,000 and \$104,000 for the year ended June 30, 2018, respectively.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE 9: 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 of the School's policies.

NOTE 10: 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 11: LEASE OBLIGATIONS

The School leases its office space located in Wexford, Pennsylvania. The amended lease term is sixty months, commencing August 1, 2015. Rent expense for the year ended June 30, 2018 totaled \$540,714. The minimum rental payments for the School's office lease are as follows:

<u>Year ending June 30:</u>	
2019	\$ 539,928
2020	539,928
2021	44,994

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: SUBSEQUENT EVENTS

The School evaluated its June 30, 2018 financial statements for subsequent events through the date of the Independent Auditor's Report, which is 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.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES,
BUDGET TO ACTUAL - GENERAL FUND (UNAUDITED)
Year ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local Revenues	\$ 9,271,668	\$ 11,133,639	\$ 11,821,028	\$ 687,389
State Revenues	20,481	22,223	22,223	-
Federal Revenues	411,064	456,182	550,849	94,667
Total Revenues	9,703,213	11,612,044	12,394,100	782,056
Expenditures				
Instruction	5,324,480	6,916,055	7,238,988	(322,933)
Support Services	3,982,359	3,843,414	3,687,108	156,306
Capital Expenses	263,100	475,519	477,307	(1,788)
Total Expenditures	9,569,939	11,234,988	11,403,403	(168,415)
Net Change in Fund Balances	133,274	377,056	990,697	613,641
Fund Balances--July 1, 2017	2,515,072	2,515,072	2,515,072	-
Fund Balances--June 30, 2018	\$ 2,648,346	\$ 2,892,128	\$ 3,505,769	\$ 613,641

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

**SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
TEACHERS' PENSION PLAN
LAST 10 FISCAL YEARS (UNAUDITED) ***

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
School's proportion of the net pension liability	0.0140%	0.0143%	0.0158%	0.0140%	0.0110%
School's proportionate share of the net pension liability	\$ 6,914,000	\$ 7,087,000	\$ 6,843,000	\$ 5,542,000	\$ 4,503,000
School's covered-employee payroll	\$ 1,867,749	\$ 1,850,478	\$ 1,852,051	\$ 2,029,850	\$ 1,791,587
Schools' proportionate share of the net pension liability as a percentage of its covered-employee payroll	370.18%	382.98%	369.48%	273.03%	251.34%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%	54.49%

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



October 29, 2018

To the Board of Trustees
Pennsylvania Distance Learning Charter School
Wexford, Pennsylvania

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, 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, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 29, 2018.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

Hill, Barth & King LLC

Certified Public Accountants



October 29, 2018

To the Board of Trustees
of Pennsylvania Distance Learning Charter School
Wexford, Pennsylvania

We have audited the financial statements of the governmental activities of the General Fund of Pennsylvania Distance Learning Charter School (the School) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated April 23, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the School's financial statements were:

Management's estimate of the allowance for doubtful accounts is based on past experience, aging of the receivables, adverse situations that may affect a district's or grantor's ability to pay, current economic conditions, and other relevant factors. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that they were reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability is based on the independently audited Schedule of Net Pension Liability Allocations by Employer of the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS) as of and for the year ended June 30, 2018. We evaluated the key factors and assumptions used to develop the net pension liability in determining that they were reasonable in relation to the financial statements taken as a whole.

Management's allocation of expenses to functional classifications is based on specific identification, estimates of square footage or through informal allocations of employee time. We evaluated the key factors and assumptions used to develop the functional expense allocations in determining that they were reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes the corrected misstatements of the financial statements. No uncorrected misstatements were noted. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 29, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, Budgetary Comparison Information, and Schedule of Proportionate Share of Net Pension Liability that are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Trustees and management of Pennsylvania Distance Learning Charter School and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Hill, Barth & King LLC
Certified Public Accountants

**Pennsylvania Distance Learning Charter School
Schedule of Corrected Misstatements
Year ended June 30, 2018**

Description (Nature) of Audit Difference (AD)	Factual (F), Judgmental (J), or Projected (P)	Over (Under) Statement					
		Total Assets & Deferred Outflows	Total Liabilities & Deferred Inflows	Net Position	Revenues	Expenses	Change in Net Position
To reverse prepaid and AP amount for July 2018 rent expense, July 2018 medical insurance premiums, and '18-'19 school year expenses booked in AP and prepaids at 6/30/18, but not paid until July 2018.	F	\$ 181,708	\$ 181,708	\$ -	\$ -	\$ -	\$ -
Total		181,708	181,708	-	-	-	-
Less audit adjustments subsequently booked		181,708	181,708	-	-	-	-
Net unadjusted AD—current year (iron curtain method)		-	-	-	-	-	-
Effect of unadjusted AD—prior years		-	-	-	-	-	-
Combined current year and prior year AD (rollover method)		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Financial statement caption totals		\$ 7,583,094	\$ 9,162,025	\$ (1,578,931)	\$ 12,394,100	\$ 11,533,093	\$ 861,007
Current year AD as % of F/S captions (iron curtain method)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Current and prior year AD as % of F/S captions (rollover method)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%