

Pennsylvania Distance Learning Charter School

Auditor's Report and Financial Statements

June 30, 2014



Pennsylvania Distance Learning Charter School
June 30, 2014

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Independent Auditor's Report

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

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, 2014, 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, 2014, and the respective changes in financial position 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, 2014, 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.

BKD, LLP

Pittsburgh, Pennsylvania
December 17, 2014

Management's Discussion and Analysis (Unaudited)

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, 2014. 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, and Statement No, 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* issued in 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 position increased \$550,446, which represents a 55 percent increase compared to 2013. This increase was primarily related to an increase in the investment in capital assets.
- Total assets increased \$685,151, which represents a 62 percent increase from 2013. This increase is primarily due to the increase in cash. The School committed \$400,000 for future PSERS contributions expenditures associated with the increasing mandated annual state employer % contribution and \$400,000 is committed for expected future increased operating costs.
- Total liabilities increased \$135,705, which represents a 133 percent increase from 2013. The increase in liabilities is a result of the increase in PSERS Employer payable and timing of accounts 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.

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 assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the school is improving or deteriorating.

Pennsylvania Distance Learning Charter School
Management's Discussion and Analysis

The Statement of Activities presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets 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 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 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

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, 2014. 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 \$1,549,468 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.

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 2014 and 2013:

(Table 1)
Summary Statement of Net Position

	<u>2014</u>	<u>2013</u>
Current Assets	\$ 1,536,947	\$ 772,943
Noncurrent Assets	<u>249,115</u>	<u>327,968</u>
Total Assets	<u>\$ 1,786,062</u>	<u>\$ 1,100,911</u>
Current Liabilities	<u>\$ 236,594</u>	<u>\$ 101,889</u>
Net Investment in Capital Assets	\$ 239,009	\$ 317,862
Unrestricted Net Position	<u>1,310,459</u>	<u>681,160</u>
Total Net Position	<u>\$ 1,549,468</u>	<u>\$ 999,022</u>

Total assets increased by \$685,151. This increase was due to a increase in the School's cash balances, along with a increase in the School's district receivables outstanding in fiscal year 2014. Liabilities increased by \$135,705. The increase in liabilities is a result of the increase in PSERS Employer payable and timing of accounts payable at year end.

Pennsylvania Distance Learning Charter School
Management's Discussion and Analysis

Capital Assets

At the end of fiscal year 2014, the School had \$239,009 in capital assets which represented a decrease of \$78,853 from 2013. Table 2 shows the respective balance for fiscal year 2014.

(Table 2)

	<u>2014</u>	<u>2013</u>
Capital Assets, Net	<u>\$ 239,009</u>	<u>\$ 317,862</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)
Change in Net Position

	<u>2014</u>	<u>2013</u>
General Revenues:		
District Funding	\$ 5,463,823	\$ 3,760,782
Federal Non-Operating grants	187,735	339,503
State Reimbursement	157,580	106,397
Other	<u>2,071</u>	<u>1,106</u>
 Total Revenues	 <u>5,811,209</u>	 <u>4,207,788</u>
Expenses:		
Instruction	3,231,295	2,193,715
Support Services	1,852,697	1,560,762
Non Instructional	-	8,363
Depreciation	176,366	151,310
Interest on Debt	<u>405</u>	<u>4,061</u>
 Total Expenses	 <u>5,260,763</u>	 <u>3,918,211</u>
 Change in Net Position	 <u>\$ 550,446</u>	 <u>\$ 289,577</u>

Table 3 shows the changes in net position for fiscal years ending June 30, 2014 and 2013, as well as a listing of revenues and expenses.

The reason for the increase in overall revenues in 2014 was primarily due to an increase in enrollment from 2013. The School's expenses increased primarily as a result of increased personnel costs to support the increased enrollment.

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

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

	<u>Budget</u>	<u>Actual</u>
General Revenues:		
District funding	\$ 4,668,016	\$ 5,463,823
Federal non-operating grants	226,240	187,735
State reimbursement	159,251	157,580
Other	-	2,071
	<u>5,053,507</u>	<u>5,811,209</u>
Expenses:		
Instruction	2,683,218	3,231,295
Support services	2,193,709	1,852,697
Capital expenses	97,513	97,513
Interest on debt	9,100	405
	<u>4,983,540</u>	<u>5,181,910</u>
Change in Net Fund Balance	<u>\$ 69,967</u>	<u>\$ 629,299</u>

- The positive budget variance in revenues during 2014 was due primarily to the timing of enrollment billing and revenue recognition of the federal programs. Notable expense-side variances include:
 - IT support services costs were approximately \$164,458 lower than budgeted.
 - Benefits costs were approximately \$45,241 lower than budgeted due to delayed reflection of new hires.
 - Salary costs were approximately \$53,272 lower than budgeted.
 - Advertising costs approximately \$69,369 higher than budgeted.
 - Books and periodicals approximately \$46,956 higher than budgeted.
 - Special Ed Contracted services approximately \$381,351 higher than budgeted.

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 Unassigned Fund Balance of \$414,528. This represents approximately 7% of the total year's funding, which will be available to the School in subsequent years.

Long Term Debt

As of June 30, 2014, 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 2014. By year end, PDLCS had collected 90% of its billed revenues, as opposed to an 92% collection rate in fiscal year 2013.

II. Enrollment

For the school year ended June 30, 2014, the School had enrolled 488 students, generating \$5.5 million in billed revenues. In the coming year, enrollment is expected to increase to 550.

Current Financial Issues (Continued)

III. Miscellaneous Statistics

The following represents some miscellaneous financial statistics of the School during the 2014 fiscal year:

Number of Districts billed: 215

Number of Students served: 488

(Regular Education Funding)

Lowest District Funding Amount: \$ 6,628

Highest District Funding Amount: \$ 14,007

Average District Funding Amount: \$ 9,285

(Special Education Funding)

Lowest District Funding Amount: \$ 12,932

Highest District Funding Amount: \$ 34,931

Average District Funding Amount: \$ 19,675

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
Year Ended June 30, 2014

	Governmental activities
Assets	
Current assets	
Cash and cash equivalents	\$ 847,580
District funding receivable	530,158
Grants funding receivable	73,384
Prepaid expenses	85,825
Total current assets	1,536,947
Noncurrent assets	
Capital assets (net of depreciation)	239,009
Security deposits	10,106
Total assets	\$ 1,786,062
Liabilities and Net Position	
Current liabilities	
Accounts payable	\$ 136,517
Accrued expenses	100,077
Total current liabilities	236,594
Net position	
Net investment in capital assets	239,009
Unrestricted net position	1,310,459
Total net position	1,549,468
Total liabilities and net position	\$ 1,786,062

Pennsylvania Distance Learning Charter School
Statement of Activities
June 30, 2014

Functions/ Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 3,231,295	\$ -	\$ -	\$ -	\$ (3,231,295)
Support services	1,852,697	-	-	-	(1,852,697)
Depreciation	176,366	-	-	-	(176,366)
Interest on debt	405	-	-	-	(405)
Total Governmental Activities	\$ 5,260,763	\$ -	\$ -	\$ -	(5,260,763)
General Revenues:					
					5,463,823
					187,735
					157,580
					2,071
					5,811,209
					550,446
					999,022
					\$ 1,549,468

Pennsylvania Distance Learning Charter School
Balance Sheet – Governmental Funds
June 30, 2014

Assets	<u>General</u>
Cash and cash equivalents	\$ 847,580
District funding receivable	530,158
Grants funding receivable	73,384
Prepaid expenses	85,825
Security deposits	<u>10,106</u>
Total assets	<u><u>\$ 1,547,053</u></u>
Liabilities	
Accounts payable	\$ 136,517
Accrued expenses	<u>100,077</u>
Total liabilities	<u>236,594</u>
Fund Balances	
Nonspendable	95,931
Committed	800,000
Unassigned	<u>414,528</u>
Total fund balances	<u>1,310,459</u>
Total liabilities and fund balances	<u><u>\$ 1,547,053</u></u>

Pennsylvania Distance Learning Charter School
Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds
Year Ended June 30, 2014

	General
Revenues	
Local revenues	\$ 5,465,894
State revenues	157,580
Federal revenues	187,735
Total revenues	5,811,209
Expenditures	
Instruction	3,231,295
Support services	1,852,697
Capital expenses	97,513
Interest on debt	405
Total expenditures	5,181,910
Net change in fund balances	629,299
Fund balances--July 1, 2013	681,160
Fund balances--June 30, 2014	\$ 1,310,459

Pennsylvania Distance Learning Charter School
Statement of Revenues, Expenditures and Changes in Fund Balances,
Budget and Actual – General Fund (Unaudited)
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local revenues	\$ 4,668,016	\$ 4,668,016	\$ 5,465,894	\$ 797,878
State revenues	159,251	159,251	157,580	(1,671)
Federal revenues	226,240	226,240	187,735	(38,505)
Total revenues	<u>5,053,507</u>	<u>5,053,507</u>	<u>5,811,209</u>	<u>757,702</u>
Expenditures				
Instruction	2,683,218	2,683,218	3,231,295	(548,077)
Support services	2,193,709	2,193,709	1,852,697	341,012
Capital expenses	97,513	97,513	97,513	-
Interest on debt	9,100	9,100	405	8,695
Other	-	-	-	-
Total expenditures	<u>4,983,540</u>	<u>4,983,540</u>	<u>5,181,910</u>	<u>(198,370)</u>
Net change in fund balances	69,967	69,967	629,299	559,332
Fund balances—July 1, 2013	<u>1,022,797</u>	<u>1,022,797</u>	<u>681,160</u>	<u>(341,637)</u>
Fund balances—June 30, 2014	<u>\$ 1,092,764</u>	<u>\$ 1,092,764</u>	<u>\$ 1,310,459</u>	<u>\$ 217,695</u>

Pennsylvania Distance Learning Charter School
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2014

Total fund balances per fund financial statements	\$ 1,310,459
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 at cost less accumulated depreciation.	<u>239,009</u>
Net position for governmental activities	<u><u>\$ 1,549,468</u></u>

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
Year Ended June 30, 2014

Net change in fund balances - Governmental funds	\$	629,299
Capital outlays are reported as expenditures in governmental funds. However, the costs of those assets is allocated in the Statement of Activities over their estimated economic lives as depreciation expense.		97,513
Depreciation expense on capital assets are included in the governmental activities in the Statement of Activities.		<u>(176,366)</u>
Change in net position of governmental activities	\$	<u>550,446</u>

Pennsylvania Distance Learning Charter School

Notes to Financial Statements

June 30, 2014

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 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.

Pennsylvania Distance Learning Charter School

Notes to Financial Statements

June 30, 2014

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 60 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 60 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 60 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

June 30, 2014

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 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.

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
June 30, 2014

Capital Assets

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

As of June 30, 2014, the School’s capital assets had a net book value of \$239,009. 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”. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets at June 30, 2014 consisted of the following:

Furniture and fixtures	\$ 38,105
Computers and software	<u>528,580</u>
Capital assets, at cost	566,685
Accumulated depreciation	<u>(327,676)</u>
Capital assets, net of depreciation	<u><u>\$ 239,009</u></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

June 30, 2014

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, 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 \$400,000 for future PSERS contribution expenditures associated with the increasing mandated annual state employer % contribution. An additional \$200,000 is committed to future capital expenditures and \$200,000 is committed to future operating costs.

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 executive director or business manager.

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 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.

The deposit policy of the School adheres to state statutes and prudent business practice. Deposits of the School as of June 30, 2014 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 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

Pennsylvania Distance Learning Charter School
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may be on a pooled basis. Additionally, all such pledged assets must be delivered to a legal custodian.

At June 30, 2014, the deposits of the School can be categorized to indicate the level of risk assumed. The School had no investments at June 30, 2014 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>Deposits</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
June 30, 2014	\$ 339,632	\$ -	\$ 507,948	\$ 847,580	\$ 847,580

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 Assets and Balance Sheet – Governmental Funds represents the amounts invoiced to the various school districts, but not collected as of June 30, 2014, reduced by management’s estimates of uncollectible amounts based on known circumstances and past experience. The amount of the receivable at year end was \$530,158. No allowance has been recorded as of June 30, 2014, based on management’s estimates of uncollectible amounts.

Note 5: Grants Funding Receivable

The School has recorded a grant receivable in the amount of \$34,680 to account for the portion of its federal grant awards allocated to the School, but not received as of June 30, 2014. Additional receivables from the Commonwealth of Pennsylvania totaled \$38,704 as of June 30, 2014.

Note 6: Line of Credit

The School has an unsecured operating line of credit arrangement with a regional bank, with interest at the prime rate of the bank. The line of credit limit is \$500,000 and it expires June 22, 2015, subject to extension. For the year ended June 30, 2014, there were no amounts borrowed against the line.

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Note 7: Management Agreement

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 8: 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 12.30% of the member's compensation, depending on the class of membership of the employee and when they joined PSERS. Contributions required of employers are based upon an actuarial valuation. For the fiscal year ended June 30, 2014, the rate of employer contribution was 16.93% of covered payroll. The School's contributions to PSERS for the years ended June 30, 2014, 2013 and 2012 were \$303,820, \$158,534 and \$120,180, respectively. Of the required contributions noted above, \$151,658, \$100,928 and \$56,157 were reimbursed to the School by the Commonwealth of Pennsylvania.

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.

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Notes to Financial Statements
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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 lease term is sixty-three months, commencing July 1, 2012, including three months of free rent. Rent expense for the year ended June 30, 2014 totaled \$181,391. The minimum rental payments for the School's office lease are as follows:

<u>Year ending:</u>		
June 30, 2015	\$	179,820
June 30, 2016		179,820
June 30, 2017		179,820
June 30, 2018		44,955
June 30, 2019		-

Note 12: Subsequent Events

The School evaluated its June 30, 2014 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.

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
Wexford, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the General Fund of Pennsylvania Distance Learning Charter School (the "School") as of and for the year ended June 30, 2014, 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, 2014.

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.

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.

BKD, LLP

Pittsburgh, Pennsylvania
December 17, 2014