

PENNSYLVANIA DISTANCE
LEARNING CHARTER SCHOOL

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2020



CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statement of Net Position	10
Statement of Activities	11
Balance Sheet – Governmental Funds	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, BUDGET TO ACTUAL – GENERAL FUND (UNAUDITED)	35
SCHEDULE OF SCHOOL’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – TEACHERS’ PENSION PLAN LAST 10 FISCAL YEARS (UNAUDITED)	36
SCHEDULE OF SCHOOL’S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – TEACHERS’ OPEB PLAN LAST 10 FISCAL YEARS (UNAUDITED)	37
SCHEDULE OF SCHOOL’S CONTRIBUTIONS – TEACHERS’ OPEB PLAN LAST 10 FISCAL YEARS (UNAUDITED)	38
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	39



December 7, 2020

To the Board of Trustees
Pennsylvania Distance Learning Charter School
Sewickley, 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, 2020, 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 financial position of the governmental activities of the General Fund of Pennsylvania Distance Learning Charter School as of June 30, 2020, and the 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 35, schedule of proportionate share of the net pension liability on page 36, schedule of proportionate share of the net OPEB liability on page 37, and schedule of OPEB contributions plan on page 38 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 7, 2020, 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, 2020. 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, 2019 total PSERS pension liability calculated at \$7,626,000.
- In accordance with GASB 75, the School is reporting its share of the June 30, 2019 total OPEB liability calculated at \$347,000.
- In total, net position increased \$902,277, which represents a 61 percent increase compared to 2019. This increase was primarily related to an increase in current year district revenues.
- Total assets increased \$1,500,032, which represents a 25 percent increase from 2019. This increase was due to an increase in the School's cash and cash equivalents.
- Total liabilities increased \$575,508, which represents a 7 percent increase from 2019. The increase in liabilities is primarily a result of the increase in accrued expenses and deferred rent.

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 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).

Pennsylvania Distance Learning Charter School
Management's Discussion and Analysis

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 \$581,142 at the close of its fiscal year. It is important to note that this equity includes \$7,973,000 of Net Pension and OPEB liabilities.

Statement of Net Position

The Statement of Net Position answers the question of how the School did financially during fiscal year 2020. 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 2020 and 2019:

(Table 1)
Summary Statements of Net Position

	2020	2019
Current Assets	\$ 5,452,253	\$ 4,427,765
Noncurrent Assets	2,159,999	1,684,455
Total Assets	7,612,252	6,112,220
Deferred Outflows of Resources Related to Pension and OPEB	1,652,663	1,674,960
Current Liabilities	1,316,086	1,132,549
Noncurrent Liabilities	8,055,971	7,664,000
Total Liabilities	9,372,057	8,796,549
Deferred Inflows of Resources Related to Pensions and OPEB	474,000	474,000
Investment in Capital Assets	1,100,129	644,850
Unrestricted Net Deficit	(1,681,271)	(2,128,219)
Total Net Position	\$ (581,142)	\$ (1,483,369)

Total assets increased \$1,500,032, which represents a 25 percent increase from 2019. This increase was due to an increase in the School's cash and cash equivalents. The increase in current liabilities is primarily a result of the increase in accrued expenses and deferred rent.

Capital Assets

At the end of fiscal year 2020, the School had \$1,100,129 in capital assets which represented an increase of \$455,279 from 2019. Table 2 shows the respective balance for fiscal year 2019.

(Table 2)

	2020	2019
Capital Assets, net	\$ 1,100,129	\$ 644,850

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>2020</u>	<u>2019</u>
General Revenues:		
District Funding	\$ 14,066,369	\$ 12,937,848
Federal Entitlement Grants	620,904	638,815
State Reimbursement	60,419	25,589
Other	34,643	44,880
	<u>14,782,335</u>	<u>13,647,132</u>
Total General Revenues	<u>14,782,335</u>	<u>13,647,132</u>
Expenses:		
Instruction	8,379,119	8,618,662
Support Services	5,037,089	4,239,039
Capital Expenses	463,900	407,356
	<u>13,880,108</u>	<u>13,265,057</u>
Total Expenses	<u>13,880,108</u>	<u>13,265,057</u>
Change in Net Position	<u>\$ 902,227</u>	<u>\$ 382,075</u>

Table 3 shows the changes in net position for fiscal years 2020 and 2019, as well as a listing of revenues and expenses.

The reason for the increase in overall revenues in 2020 was primarily due to an increase in per-pupil allotment and an increase in special education students from 2019. The School's expenses increased primarily as a result of increased personnel costs and additional capital expenditures from 2019. 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, 2020**

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

	<u>Budget</u>	<u>Actual</u>
Revenues:		
Local Revenues	\$ 14,092,678	\$ 14,101,012
State Revenues	61,781	60,419
Federal Revenues	652,527	620,904
	<u>14,806,986</u>	<u>14,782,335</u>
Total Revenues		
	<u>14,806,986</u>	<u>14,782,335</u>
Expenditures:		
Instruction	8,676,084	8,188,695
Support Services	6,136,244	4,813,245
Capital Expenses	382,200	919,179
	<u>15,194,528</u>	<u>13,921,119</u>
Total Expenses		
	<u>15,194,528</u>	<u>13,921,119</u>
Change in Fund Balance	\$ <u>(387,542)</u>	\$ <u>861,216</u>

- Total budgeted revenues during 2020 was slightly higher, \$24,651, than the actual.
- The actual expenses were less than budgeted. Notable expense-side variances include:
 - Personnel costs were approximately \$515,000 less than budgeted primarily due to staffing changes within the instructional, special education, support and title I departments, and health insurance costs being less than budgeted.
 - Total Contracted Services were approximately \$476,000 less than budgeted due to a decrease in special education costs.

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 \$1,313,530. This represents approximately 8.8% of the total year's funding, which will be available to the School in subsequent years.

Long-Term Debt

As of June 30, 2020 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 277 various Districts in fiscal year 2020. By year end, the School had collected approximately 92% of its billed revenues, as opposed to a 88% collection rate in fiscal year 2019.

II. Enrollment

For the school year ended June 30, 2020, the School had a final Average Daily Membership (ADM) of 871 students, generating \$14.1 million in billed revenues. In the coming year, enrollment (ADM) is expected to increase to 1,400.

III. Miscellaneous Statistics

The following represents some miscellaneous financial statistics of the School during the 2020 fiscal year:

Number of Districts billed: 277

Number of Students served: 1,139 (had enrollment days at some point during the year)

Pennsylvania Distance Learning Charter School Management's Discussion and Analysis

(Regular Education Funding)

Lowest District Funding Amount:	\$	7,372
Highest District Funding Amount:	\$	20,480
Average District Funding Amount:	\$	12,220

(Special Education Funding)

Lowest District Funding Amount:	\$	10,182
Highest District Funding Amount:	\$	55,727
Average District Funding Amount:	\$	27,173

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.

The COVID-19 health crisis has an expected adverse effect on the State's financial condition. 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 budgeted expenditures. To the extent that State funds are reduced at the district level, this reduction will result in a reduction to charter school funding.

In addition, the health crisis appears to be resulting in an unexpected increase in enrollment to cyber charter schools in the Commonwealth. As such and for the 2020-2021 academic year, the student enrollment will increase to approximately 1,400 students. The School will monitor the enrollment trends to determine if the enrollment increases will hold steady into the 2021-2022 school year.

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, 2605 Nicholson Road, Suite #4100, Sewickley, PA 15143.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2020

	<u>Governmental Activities</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 3,921,854
District Funding Receivable (Net of Allowance)	1,429,011
Grants Funding Receivable	7,840
Other Receivable	4,118
Prepaid Expenses	89,430
Total Current Assets	5,452,253
<u>Noncurrent Assets</u>	
Certificate of Deposit - Limited Use	1,049,764
Capital Assets (Net of Depreciation)	1,100,129
Security Deposits	10,106
Total Noncurrent Assets	2,159,999
Total Assets	7,612,252
<u>Deferred Outflows of Resources</u>	
Deferred Outflows of Resources Related to Pension and OPEB	1,652,663
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts Payable	316,917
Accrued Expenses	501,873
District Funding Payable	497,296
Total Current Liabilities	1,316,086
<u>Noncurrent Liabilities</u>	
Deferred Rent	82,971
Net OPEB Liability	347,000
Net Pension Liability	7,626,000
Total Noncurrent Liabilities	8,055,971
Total Liabilities	9,372,057
<u>Deferred Inflows of Resources</u>	
Deferred Inflows of Resources Related to Pension and OPEB	474,000
<u>Net Position</u>	
Net Investment in Capital Assets	1,100,129
Unrestricted Net Deficit	(1,681,271)
Total Net Position	\$ (581,142)

See accompanying notes to financial statements

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year ended June 30, 2020

<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>	<u>Capital Grants and Contributions</u>	
Governmental Activities:					
Instruction	\$ 8,379,119	-	-	-	\$ (8,379,119)
Support Services	5,037,089	-	-	-	(5,037,089)
Depreciation	463,900	-	-	-	(463,900)
Total Governmental Activities	\$ 13,880,108	-	-	-	(13,880,108)
General Revenues:					
District Funding				14,066,369	
Federal Entitlement Grants				620,904	
State Reimbursements				60,419	
Other				34,643	
Total General Revenues				14,782,335	
Change in Net Position				902,227	
Net Position, Beginning				(1,483,369)	
Net Position, Ending				\$ (581,142)	

See accompanying notes to financial statements

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020

	<u>General</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 3,921,854
Certificates of Deposit - Limited Use	1,049,764
District Funding Receivable	1,429,011
Federal Receivable	7,840
Other Receivable	4,118
Prepaid Expenses	89,430
Security Deposits	10,106
Total Assets	\$ 6,512,123
<u>Liabilities</u>	
Accounts Payable	\$ 316,917
Accrued Expenses	501,873
District Funding Payable	497,296
Total Liabilities	1,316,086
<u>Fund Balances</u>	
Nonspendable	99,536
Committed	3,700,000
Unassigned	1,396,501
Total Fund Balances	5,196,037
Total Liabilities and Fund Balances	\$ 6,512,123

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, 2020

	<u>General</u>
Revenues	
Local Revenues	\$ 14,101,012
State Revenues	60,419
Federal Revenues	<u>620,904</u>
Total Revenues	<u>14,782,335</u>
Expenditures	
Instruction	8,188,695
Support Services	4,813,245
Capital Expenses	<u>919,179</u>
Total Expenditures	<u>13,921,119</u>
Net Change in Fund Balances	861,216
Fund Balances--July 1, 2019	<u>4,334,821</u>
Fund Balances--June 30, 2020	<u><u>\$ 5,196,037</u></u>

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, 2020

Total Fund Balances per Fund Financial Statements	\$	5,196,037
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.		1,100,129
Some liabilities, including deferred rent, net pension and OPEB obligations, are not due and payable in the current period and, therefore, are not reported in the fund financial statement.		(8,055,971)
Deferred outflows and inflows or resources related to pension and OPEB are applicable to future periods and, therefore, are not reported in the funds:		
Deferred inflows of resources related to pension and OPEB		(474,000)
Deferred outflows of resources related to pension and OPEB		1,652,663
Net Position for Governmental Activities	\$	<u><u>(581,142)</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, 2020

Net Change in Fund Balances per Fund Financial Statements	\$	861,216
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.		919,179
Depreciation expense on governmental capital assets are included in the governmental activities in the Statement of Activities.		(463,900)
Deferred rent expense on long-term lease is not a current financial resource but is included in the governmental activities in the Statement of Activities.		(82,971)
Governmental funds report School pension and OPEB contributions as expenditures. However in the statement of activities, the cost of pension and OPEB benefits earned net of employee contributions is reported as expense.		<u>(331,297)</u>
Change in Net Position of Governmental Activities	\$	<u>902,227</u>

See accompanying notes to financial statements

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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, 2020

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, 2020

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, 2020

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, 2020, the School's capital assets had a net book value of \$1,100,129. 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," three years for "Computers and Software," and ten years for "Leasehold Improvements." The depreciation expense for the year ended June 30, 2020 was \$463,900. Capital assets at June 30, 2020 consisted of the following:

	<u>June 30, 2019</u>	<u>Additions</u>	<u>Dispositions</u>	<u>June 30, 2020</u>
Leasehold Improvements	\$ -	\$ 171,952	\$ -	\$ 171,952
Furniture and Fixtures	93,281	368,127	(93,281)	368,127
Computers and Software	1,183,410	379,100	(538,582)	1,023,928
Capital Assets, at Cost	1,276,691	919,179	(631,863)	1,564,007
Less Accumulated Depreciation	(631,841)	(463,900)	631,863	(463,878)
Capital Assets, Net of Depreciation	<u>\$ 644,850</u>	<u>\$ 455,279</u>	<u>\$ -</u>	<u>\$ 1,100,129</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, 2020

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 \$1,842,802 for future PSERS contribution expenditures associated with the increasing mandated annual state employer contribution. An additional \$840,000 is committed to implementation of the strategic plan and \$1,017,198 is committed as collateral for the letter-of-credit required under the facility lease. The total committed funds as of June 30, 2020 are \$3,700,000.
- 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, 2020 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, 2020

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

Deposits (Continued)

At June 30, 2020, the deposits of the School can be categorized to indicate the level of risk assumed. The School had no investments at June 30, 2020 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, 2020	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 4,721,618</u>	<u>\$ 4,971,618</u>	<u>\$ 4,971,618</u>

Included in the financial statements is a "Certificate of Deposit – Limited Use" which is held as collateral for a letter of credit described in Note 11 to the financial statements.

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, 2020 reduced by management's estimates of uncollectible amounts based on known circumstances and past experience. The amount of the receivable at year end was \$1,548,377. An allowance of \$119,366 has been recorded as of June 30, 2020, based on management's estimates of uncollectible amounts.

NOTE 5: GRANTS FUNDING RECEIVABLE

The School has recorded a grant receivable in the amount of \$7,840 to account for the portion of its federal grant awards allocated to the School, but not received as of June 30, 2020.

NOTE 6: AGREEMENTS

The School entered into a three-year agreement with Charter Choices, Inc. effective July 1, 2019. 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, 2020

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, 2020

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, 2020 was 33.43% 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 \$798,121 for the year ended June 30, 2020.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

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, 2020, the School reported a liability of \$7,626,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018 to June 30, 2019. 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, 2019, the School's proportion was .0163 percent, which was an increase of .001 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School recognized pension expense of \$818,164. At June 30, 2020, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Expected and Actual Investment Earnings	\$ -	\$ 460,000
Changes in Proportions	773,000	-
Difference Between Employer Contributions and Proportionate Share of Total Contributions	9,240	-
Contributions Subsequent to the Measurement Date	798,121	-
	<u>\$ 1,580,361</u>	<u>\$ 460,000</u>

\$798,121 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, 2020. 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:

2021	\$ 148,000
2022	114,688
2023	44,174
2024	15,238
2025	140

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

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, 2019 was determined by rolling forward the System's total pension liability at June 30, 2018 to June 30, 2019 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 actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experiences study that was performed for the five-year period through June 30, 2015.

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.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

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)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20.0 %	5.6 %
Fixed Income	36.0 %	1.9 %
Commodities	8.0 %	2.7 %
Absolute Return	10.0 %	3.4 %
Risk Parity	10.0 %	4.1 %
Infrastructure/ MLPs	8.0 %	5.5 %
Real Estate	10.0 %	1.1 %
Alternative Investments	15.0 %	7.4 %
Cash	3.0 %	0.3 %
Financing (LIBOR)	(20.0) %	0.7 %
	<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, 2019.

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	\$ 9,498,000	\$ 7,626,000	\$ 6,040,000

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

NOTE 7: DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 \$171,000 and \$145,000 for the year ended June 30, 2020, respectively.

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB)

Other Postemployment Benefits

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Public-School Employees' Retirement System (PSERS) 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002 under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

General Information about the Health Insurance Premium Assistance Program

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Pension Plan Description

PSERS is a governmental cost-sharing multiple-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.pa.gov.

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2019, there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions

The School's contractually required contribution rate for the fiscal year ended June 30, 2020 was 0.83% 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 OPEB plan from the School were \$20,043 for the year ended June 30, 2020.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the School reported a liability of \$347,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2018 to June 30, 2019. The School's proportion of the net OPEB 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, 2019, the School's proportion was .0163 percent.

For the year ended June 30, 2020, the School recognized OPEB expense of \$2,747. At June 30, 2020, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Proportions	\$ -	\$ 14,000
Changes of Assumptions	52,000	-
Difference Between Employer Contributions and Proportionate Share of Total Contributions	259	-
Contributions Subsequent to the Measurement Date	20,043	-
	<u>\$ 72,302</u>	<u>\$ 14,000</u>

The \$20,043 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:

2021	\$ 6,000
2022	6,120
2023	6,120
2024	6,019
2025	9,000
Therafter	4,000

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Actuarial Assumptions

The Total OPEB Liability as of June 30, 2019, was determined by rolling forward the System's Total OPEB Liability as of June 30, 2018 to June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return – 2.79% - S&P 20 Year Municipal Bond Rate.
- 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.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- 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.
- Participation rate:
 - Eligible retirees will elect to participate Pre age 65 at 50%
 - Eligible retirees will elect to participate Post age 65 at 70%

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five-year period ending June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2016 determined the employer contribution rate for fiscal year 2019.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Actuarial Assumptions (Continued)

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Under the program, as defined in the retirement code employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	13.2 %	0.2 %
US Core Fixed Income	83.1 %	1.0 %
Non-US Developed Fixed	3.7 %	- %
	<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, 2019.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 2.79%. Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.79%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2019, was applied to all projected benefit payments to measure the total OPEB liability.

Sensitivity of the System Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2019, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2019, 93,339 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2019, 780 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Sensitivity of the System Net OPEB Liability to Change in Healthcare Cost Trend Rates (Continued)

The following presents the System net OPEB liability for June 30, 2019, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if Healthcare cost trends were 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
System net OPEB liability	\$ 347,000	\$ 347,000	\$ 347,000

Sensitivity of the School's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability, calculated using the discount rate of 2.79%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.79%) or 1-percentage-point higher (3.79%) than the current rate:

	<u>1% Decrease 1.79%</u>	<u>Current Discount 2.79%</u>	<u>1% Increase 3.79%</u>
School's Proportionate Share of Net OPEB Liability	\$ 395,000	\$ 347,000	\$ 307,000

OPEB 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.pa.gov.

NOTE 10: 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.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

NOTE 11: 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.

Letter of Credit

The School has a \$1,017,198 letter of credit with PNC bank as required in a new facility lease. The letter of credit is secured by School assets along with a certificate of deposit that is shown in the financial statements as "Certificate of Deposit – Limited Use". The lease allows for the reduction in the letter of credit as follows:

<u>As of:</u>	<u>Amount</u>
July 1, 2025	\$ 813,758
July 1, 2026	610,319
July 1, 2027	406,879
July 1, 2028	203,440
July 1, 2029	-

NOTE 12: 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, 2020 totaled \$553,875.

The School entered into a lease for office space located in Sewickley, Pennsylvania. The lease term is one hundred twenty-two months and commenced on June 1, 2020. Rent expense for the year ended June 30, 2020 totaled \$82,971.

The minimum rental payments for the School's office leases are as follows:

<u>Year ending June 30:</u>	
2021	\$ 892,032
2022	941,528
2023	960,190
2024	979,524
2025	999,180
Thereafter	5,395,866
	<u>\$ 10,168,320</u>

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2020

NOTE 13: 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 14: SUBSEQUENT EVENTS

The School evaluated its June 30, 2020 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 or notes.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES,
BUDGET TO ACTUAL - GENERAL FUND (UNAUDITED)

Year ended June 30, 2020

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Local Revenues	\$ 14,092,678	\$ 14,092,678	\$ 14,101,012	\$ 8,334
State Revenues	61,781	61,781	60,419	(1,362)
Federal Revenues	652,527	652,527	620,904	(31,623)
Total Revenues	14,806,986	14,806,986	14,782,335	(24,651)
Expenditures				
Instruction	8,676,084	8,676,084	8,188,695	487,389
Support Services	6,136,244	6,136,244	4,813,245	1,322,999
Capital Expenses	382,200	382,200	919,179	(536,979)
Total Expenditures	15,194,528	15,194,528	13,921,119	1,273,409
Net Change in Fund Balances	(387,542)	(387,542)	861,216	1,248,758
Fund Balances--July 1, 2019	4,334,821	4,334,821	4,334,821	-
Fund Balances--June 30, 2020	\$ 3,947,279	\$ 3,947,279	\$ 5,196,037	\$ 1,248,758

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, 2020</u>	<u>June 30, 2019</u>	<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	0.0163%	0.0153%	0.0140%	0.0143%	0.0158%	0.0140%	0.0110%
School's proportionate share of the net pension liability	\$ 7,626,000	\$ 7,345,000	\$ 6,914,000	\$ 7,087,000	\$ 6,843,000	\$ 5,542,000	\$ 4,503,000
School's covered-employee payroll	\$ 2,249,477	\$ 2,059,924	\$ 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	339.01%	356.57%	370.18%	382.98%	369.48%	273.03%	251.34%
Plan fiduciary net position as a percentage of the total pension liability	55.66%	54.00%	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.

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
School's proportion of the net OPEB liability	0.0163%	0.0153%
School's proportionate share of the net OPEB liability	\$ 347,000	\$ 319,000
School's covered-employee payroll	\$ 2,249,477	\$ 2,059,924
Schools' proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	15.43%	15.49%
Plan fiduciary net position as a percentage of the total OPEB liability	5.56%	5.56%

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

PENNSYLVANIA DISTANCE LEARNING CHARTER SCHOOL

SCHEDULE OF SCHOOL'S CONTRIBUTIONS -
TEACHERS' OPEB PLAN
LAST 10 FISCAL YEARS (UNAUDITED) *

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
School's contractually required contribution rate	0.83%	0.83%
School's contributions recognized by the plan	\$ 18,670	\$ 17,097
Difference between employer contributions and proportionate share of total contributions	\$ 379	\$ 402
School's covered-employee payroll	\$ 2,249,477	\$ 2,059,924
Schools' proportionate contributions as a percentage of its covered-employee payroll	0.83%	0.83%

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



December 7, 2020

To the Board of Trustees
Pennsylvania Distance Learning Charter School
Sewickley, 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, 2020, 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 7, 2020.

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) as a basis for designing 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