

PENNSYLVANIA CYBER CHARTER SCHOOL

Financial Statements

June 30, 2016

DELUZIO & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

PENNSYLVANIA CYBER CHARTER SCHOOL

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Independent Auditor's Report

To the Board of Directors
Pennsylvania Cyber Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Pennsylvania Cyber Charter School, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Pennsylvania Cyber Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Pennsylvania Cyber Charter School's 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.

(continued)

Independent Auditor's Report

(continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Pennsylvania Cyber Charter School, as of June 30, 2016, and the respective changes in financial position and, cash flows thereof 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, budgetary comparison information, other post-employment benefits information, and the pension information on pages i through vii and 31 through 34, 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 limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pennsylvania Cyber Charter School's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Independent Auditor's Report

(continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of Pennsylvania Cyber Charter School's internal control over financial reporting and 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 Pennsylvania Cyber Charter School's internal control over financial reporting and compliance.

Greensburg, Pennsylvania
November 21, 2016

PENNSYLVANIA CYBER CHARTER SCHOOL
Management’s Discussion and Analysis
Required Supplementary Information
June 30, 2016

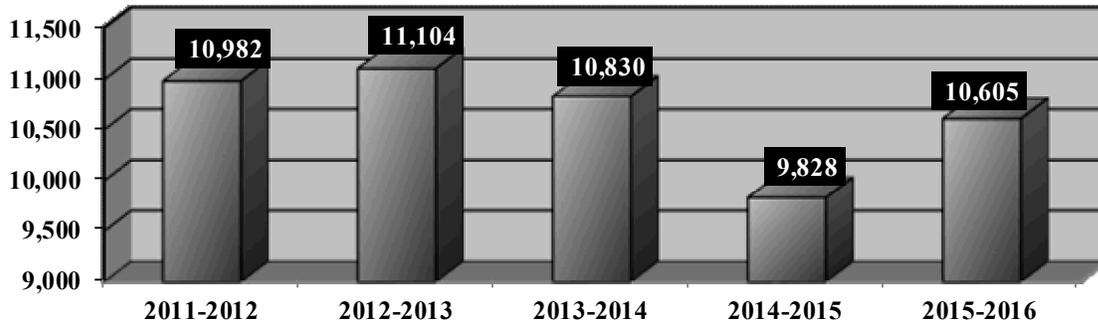
Our discussion and analysis of the Pennsylvania Cyber Charter School’s (The School) financial performance provides an overview of the School’s financial activities for the fiscal year ended June 30, 2016. Please review this information in conjunction with the School’s financial statements that begin on page 4.

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.

FINANCIAL HIGHLIGHTS

The school continues to serve its students in accordance with its vision and mission statements whereby the school is dedicated to providing student-centered service that empower each student to succeed and grow beyond the normal curriculum.

Pennsylvania Cyber Charter School
Student Enrollment
 Source: LEA May Enrollment Summaries



The School’s total liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources as of June 30, 2016 by \$4,671,999. As of June 30, 2016, the School reported an unassigned ending fund balance of \$4,802,058 that may be used at the School’s discretion. This amount equates to 3.87% of total General Fund Expenditures. The \$4,802,058 balance represents a \$2,133,891 or 30.77% decrease from the June 30, 2015 balance of \$6,935,949.

The School’s governmental fund balance was \$40,338,716 as of June 30, 2016 and consisted of the following:

Nonspendable	
Prepays and Deposits	\$ 447,786
Spendable	
Committed To:	
Future PSERS Retirement Rate Increases	28,397,508
Future Healthcare Cost Increases	5,691,192

(continued)

PENNSYLVANIA CYBER CHARTER SCHOOL
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2016

FINANCIAL HIGHLIGHTS (continued)

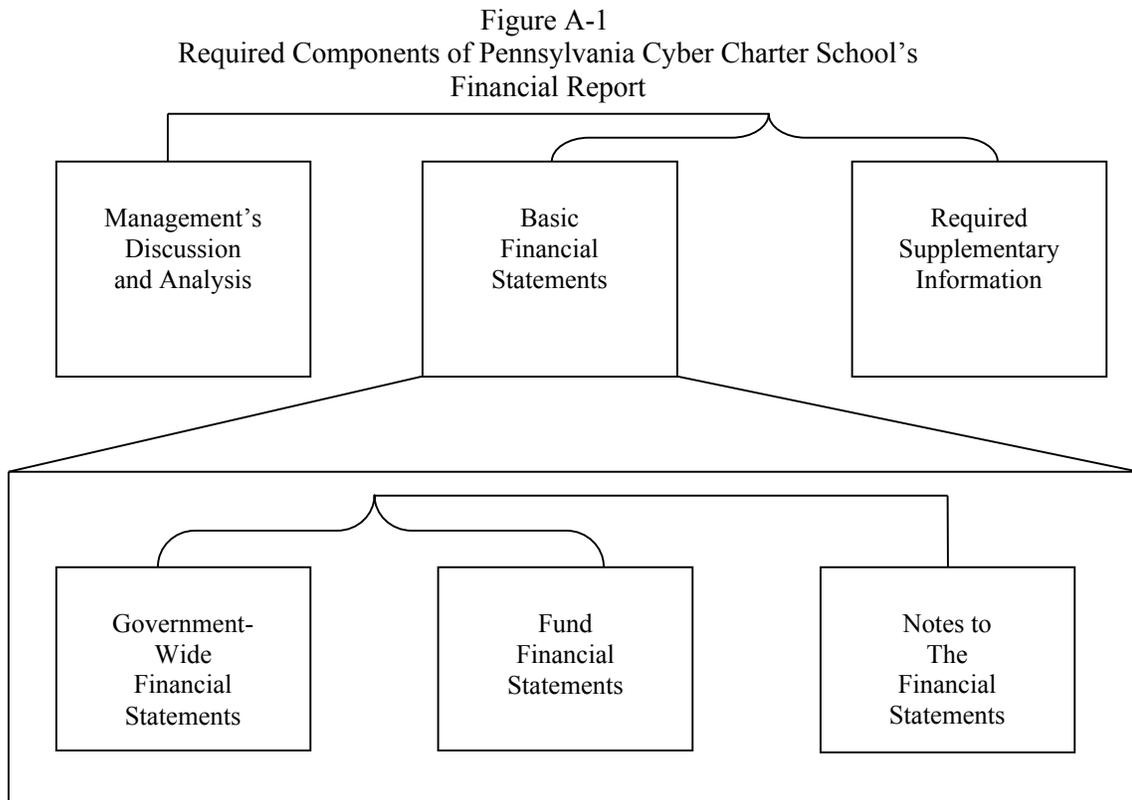
Governmental fund balance (continued)

Assigned To:	
Future OPEB Obligations	640,816
Future Special Education Legal Obligations	359,356
Unassigned	4,802,058
Total Fund Balance	<u>\$ 40,338,716</u>

USING THE BASIC FINANCIAL STATEMENT REPORT

This Basic Financial Statement Report consists of the Management's Discussion and Analysis and a series of financial statements and notes to those statements. The Statement of Net Position and Statement of Activities, on pages 4 and 5, provide information about the activities of the School as a whole and present a longer-term view of the School's financial position. Fund Financial Statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. There are two parts to the Fund Financial Statements: 1) the governmental fund statements; and 2) the proprietary fund statements. Lastly, the financial statements include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 shows how the required parts of the Financial Section are arranged and relate to one another.



PENNSYLVANIA CYBER CHARTER SCHOOL
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2016

REPORTING THE SCHOOL AS A WHOLE

Statement of Net Position and the Statement of Activities

While this document contains the funds used by the School to provide programs and activities, the view of the School as a whole looks at all financial transactions and asks the question, "How did we do financially during Fiscal Year Ended June 30, 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School's net position and changes in net position. This change in net position is important because it tells the reader, for the School as a whole, whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the current charter school laws in Pennsylvania concerning funding, availability of facilities, required educational programs, mandated services and other factors.

OVERVIEW OF FINANCIAL STATEMENTS

Government-Wide Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the School's net position and how it has changed. Net position, the difference between the School's assets and deferred outflows of resources and liabilities and deferred inflows of resources, are one way to measure the School's financial health or position.

Over time, increases or decreases in the School's net position is an indication of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the School, you need to consider additional non-financial factors, such as changes in the School's enrollment (growth) and the academic achievement of the students.

In the Statement of Net Position and the Statement of Activities, the School shows the following kinds of activities:

- Governmental activities – Most of the School's basic services are included here, such as instruction, support services, operation and maintenance of plant, and administrative services. Tuition, state and federal subsidies and grants finance most of these activities.

PENNSYLVANIA CYBER CHARTER SCHOOL
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2016

REPORTING THE CHARTER SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial statements provide detailed information about the most significant funds - not the School as a whole. Some funds are required by state law.

Governmental funds – Most of the School's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reflected in a reconciliations on pages 7 and 9.

Proprietary funds – The School maintains one proprietary fund. The internal service fund is an accounting device used to accumulate and allocate costs internally among the School's various functions. The School uses the internal service fund to account for its self-funded health insurance. Because these services benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The School's total net position was \$(4,671,999) at June 30, 2016 and \$270,249 at June 30, 2015.

Table A-1
Condensed Statement of Net Position
Fiscal Years Ended June 30, 2016 and June 30, 2015

	June 30, 2016	June 30, 2015
Current assets	\$ 49,558,540	\$ 46,028,223
Capital assets	28,556,543	29,323,790
Noncurrent assets	6,068,564	6,408,564
Total Assets	84,183,647	81,760,577
Deferred Outflows of Resources	27,562,322	14,234,003
Current liabilities	6,758,209	5,897,833
Noncurrent liabilities	108,994,759	83,887,318
Total Liabilities	115,752,968	89,785,151
Deferred Inflows of Resources	665,000	5,939,000
Net Investment in capital assets	28,556,543	29,323,790
Unrestricted	(33,228,542)	(29,053,361)
Total Net Position	\$ (4,671,999)	\$ 270,429

PENNSYLVANIA CYBER CHARTER SCHOOL
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2016

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (continued)

Total current assets increased by \$3,530,317 leading to an overall increase in total assets of \$2,423,070 from the prior year. In addition, total liabilities increased by \$25,967,817 while total net position decreased by \$4,942,428.

The majority of the increase in total liabilities relates to the School's proportionate share of the PSERS net pension liability which was recorded in accordance with GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." The deferred outflows of resources and deferred inflows of resources are also a result of recording the net pension liability in accordance with GASB 68. For more information on this, see the notes to the financial statements.

The results of this year's operations as a whole are reported in the Statement of Activities on page 5. All operating expenses are reported in the first column. Specific charges, grants, revenues, and subsidies that directly relate to specific expense categories are presented to determine the final amount of the School's activities that are supported by other general revenues. The largest general revenue is tuition charged to local educational agencies for enrolled students residing in those educational agencies.

Table A-2 takes the information from the Statement of Activities, rearranges it slightly, so you can see total revenues for the year. Prior year information is also provided for a comparative analysis of government-wide data.

Table A-2
Changes in Net Position
Fiscal Years Ended June 30, 2016 and June 30, 2015

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenues		
<u>Program revenues:</u>		
Operating grants and contributions	\$ 4,721,542	\$ 4,773,044
<u>General revenues:</u>		
Payments from local educational agencies	122,058,569	111,244,689
Investment earnings	4,770	2,385
Miscellaneous income (loss)	<u>(320,393)</u>	<u>(45,155)</u>
Total Revenues	<u>126,464,488</u>	<u>115,974,963</u>
Expenses		
Instructional services	83,306,111	76,714,190
Support services	43,097,018	42,568,031
Unallocated depreciation	4,807,843	4,877,804
Non-instructional services	<u>195,944</u>	<u>175,919</u>
Total Expenses	<u>131,406,916</u>	<u>124,335,944</u>
Decrease in Net Position	(4,942,428)	(8,360,981)
Net Position, beginning	<u>270,429</u>	<u>8,631,410</u>
Net Position, ending	<u>\$ (4,671,999)</u>	<u>\$ 270,429</u>

PENNSYLVANIA CYBER CHARTER SCHOOL
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2016

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (continued)

The tables below present the expenses of the Governmental Activities of the School.

Tables A-3 and A-4 show the School's four largest functions - instructional programs, support programs, non-instructional programs and unallocated depreciation as well as each program's net cost (total cost less revenues generated by or restricted for the activities). These tables also show the remaining financial needs supported by local and other miscellaneous revenues. Prior year information is again provided to allow for a comparative analysis.

Table A-3
Fiscal Year Ended June 30, 2016
Governmental Activities

<u>Function/Programs</u>	<u>Total Cost of Service</u>	<u>Net Cost of Services</u>
Instructional services	\$ 83,306,111	\$ 80,055,256
Support services	43,097,018	41,650,165
Unallocated depreciation	4,807,843	4,807,843
Non-instructional services	195,944	172,110
Total Governmental Activities	<u>\$ 131,406,916</u>	<u>\$ 126,685,374</u>
Total needs from local and other revenues		<u>\$ 126,685,374</u>

Table A-4
Fiscal Year Ended June 30, 2015
Governmental Activities

<u>Function/Programs</u>	<u>Total Cost of Service</u>	<u>Net Cost of Services</u>
Instructional services	\$ 76,714,190	\$ 73,177,760
Support services	42,568,031	41,351,393
Unallocated depreciation	4,877,804	4,877,804
Non-instructional services	175,919	155,943
Total Governmental Activities	<u>\$ 124,335,944</u>	<u>\$ 119,562,900</u>
Total needs from local and other revenues		<u>\$ 119,562,900</u>

THE SCHOOL'S FUNDS

General Fund Budgeting Highlights

The General Fund, which accounts for the School's operations, had an unassigned fund balance of \$4,802,058, as noted on page 6. This represents a decrease of \$2,133,891 from 2014-2015 operations.

PENNSYLVANIA CYBER CHARTER SCHOOL
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2016

THE SCHOOL'S FUNDS (continued)

The School's budget is prepared according to Pennsylvania law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The only budgeted fund is the General Operating Fund.

For the General Operating Fund, budgeted revenue and other financing sources were in the amount of \$112,000,414. Actual revenues and other financing sources were more than this budget amount by \$15,242,159. This was mainly due to more than anticipated student enrollment. The expenditures were budgeted at \$123,990,986. Actual expenditures were more than budgeted expenditures by approximately \$118,383. A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided on page 31.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the School's Governmental Activities had \$28,556,543 invested in a broad range of capital assets, including land, buildings and improvements, furniture and equipment. This amount represents a net decrease of \$767,247 from last year. The decrease in capital assets is primarily due to depreciation exceeding additions. More detailed information regarding the School's capital assets is included in the Notes to the Financial Statements.

Debt Administration

The School had a revenue anticipation note with a bank for short term borrowing needs. The note was not utilized during the year ended June 30, 2016.

ECONOMIC FACTORS AND BUDGETS

Though the cyber charter school concept is now widely-accepted as a viable and indeed necessary educational model, the issue concerning how cyber charter schools are funded will likely remain contentious in the foreseeable future. Nevertheless, the demand for the type and quality of services provided by the School continues to grow. The success of the School has created hundreds of new jobs in and around the community of Midland as more professional and support staff are needed to serve the growing roster of students. As a state-wide school, the School is also establishing a physical presence in key areas across Pennsylvania. Furthermore, the innovations – technological and educational – pioneered by the School are helping to establish Pennsylvania as a leader in the development of 21st century learning strategies for public education.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the School's finances and to show the School Board of Directors accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Matthew Schulte, Chief Financial Officer, at Pennsylvania Cyber Charter School, 652 Midland Avenue, Midland, Pennsylvania 15059.

PENNSYLVANIA CYBER CHARTER SCHOOL
Statement of Net Position
June 30, 2016

	Governmental Activities
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 38,792,673
Intergovernmental Receivables, net	9,970,576
Other Receivables	296,069
Current Portion of Note Receivable	340,000
Deposits	1,248
Prepaid Expenses	157,974
Total Current Assets	49,558,540
Noncurrent Assets	
Land	1,049,829
Buildings and Improvements (net of depreciation)	16,998,888
Furniture and Equipment (net of depreciation)	1,362,400
Computer Equipment (net of depreciation)	9,145,426
Prepaid Expenses	185,963
Deposits	102,601
Note Receivable, net of current portion	5,780,000
Total Noncurrent Assets	34,625,107
TOTAL ASSETS	84,183,647
DEFERRED OUTFLOWS OF RESOURCES	27,562,322
LIABILITIES	
Current Liabilities	
Accounts Payable	2,351,814
Claims and Judgments Payable	69,642
Accrued Salaries and Benefits	1,351,901
Retirement Payable	2,390,332
Other Payables	2,200
Accrued Healthcare Costs	592,320
Total Current Liabilities	6,758,209
Noncurrent Liabilities	
Claims and Judgments Payable	289,714
Net Pension Liability	108,064,229
Postemployment Benefits	640,816
Total Noncurrent Liabilities	108,994,759
TOTAL LIABILITIES	115,752,968
DEFERRED INFLOWS OF RESOURCES	665,000
NET POSITION	
Net Investment in Capital Assets	28,556,543
Unrestricted Deficit	(33,228,542)
TOTAL NET POSITION	\$ (4,671,999)

See accompanying notes to the financial statements.

PENNSYLVANIA CYBER CHARTER SCHOOL
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities					
Instructional Services					
Regular Instruction	\$ 61,987,739	\$ -	\$ 1,809,983	\$ -	\$ (60,177,756)
Special Instruction	20,488,696	-	1,440,872	-	(19,047,824)
Vocational Instruction	-	-	-	-	-
Other Instructional Programs	829,676	-	-	-	(829,676)
Higher Education Programs	-	-	-	-	-
Total Instructional Services	<u>83,306,111</u>	<u>-</u>	<u>3,250,855</u>	<u>-</u>	<u>(80,055,256)</u>
Support Services					
Pupil Personnel	10,937,337	-	266,012	-	(10,671,325)
Instructional Staff	2,456,925	-	1,010,221	-	(1,446,704)
Administration	7,174,054	-	-	-	(7,174,054)
Pupil Health	906,878	-	170,620	-	(736,258)
Business Services	4,832,908	-	-	-	(4,832,908)
Operation of Plant and Maintenance Services	7,902,241	-	-	-	(7,902,241)
Student Transportation Services	-	-	-	-	-
Support Services - Central	8,886,675	-	-	-	(8,886,675)
Total Support Services	<u>43,097,018</u>	<u>-</u>	<u>1,446,853</u>	<u>-</u>	<u>(41,650,165)</u>
Non-Instructional Services					
Student Activities	27,873	-	-	-	(27,873)
Food Services	-	-	-	-	-
Community Services	168,071	-	23,834	-	(144,237)
Facilities	-	-	-	-	-
Interest on Long-Term Debt	-	-	-	-	-
Other Expense	-	-	-	-	-
Unallocated Depreciation Expense	4,807,843	-	-	-	(4,807,843)
Total Non-Instructional Services	<u>5,003,787</u>	<u>-</u>	<u>23,834</u>	<u>-</u>	<u>(4,979,953)</u>
Total Governmental Activities	\$ <u>131,406,916</u>	\$ <u>-</u>	\$ <u>4,721,542</u>	\$ <u>-</u>	(126,685,374)
General Revenues:					
					122,058,569
Payments from Local Educational Agencies					4,770
Investment Earnings					(427,617)
Loss on Disposal of Capital Assets					107,224
Miscellaneous Income					
Total General Revenues					<u>121,742,946</u>
Change in Net Position					(4,942,428)
Net Position - July 1, 2015					<u>270,429</u>
Net Position - June 30, 2016					<u>\$ (4,671,999)</u>

See accompanying notes to the financial statements.

PENNSYLVANIA CYBER CHARTER SCHOOL
Balance Sheet – Governmental Funds
June 30, 2016

ASSETS	<u>General</u>
Cash and Cash Equivalents	\$ 35,969,744
Intergovernmental Receivables	9,970,576
Other Receivables	23,589
Deposits	103,849
Due from Internal Service Fund	23,268
Prepaid Expenses	<u>343,937</u>
TOTAL ASSETS	\$ <u><u>46,434,963</u></u>
 LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts Payable	\$ 2,351,814
Accrued Salaries and Benefits	1,351,901
Retirement Payable	2,390,332
Other Payables	<u>2,200</u>
TOTAL LIABILITIES	6,096,247
 FUND BALANCES	
Nonspendable	
Prepays and Deposits	447,786
Spendable	
Committed To:	
Future PSERS Retirement Rate Increases	28,397,508
Future Healthcare Cost Increases	5,691,192
Assigned To:	
Future OPEB Obligations	640,816
Future Special Education Legal Obligations	359,356
Unassigned	<u>4,802,058</u>
TOTAL FUND BALANCES	<u>40,338,716</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u><u>46,434,963</u></u>

See accompanying notes to the financial statements.

PENNSYLVANIA CYBER CHARTER SCHOOL
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 40,338,716

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of all Capital Assets	46,830,839
Less Accumulated Depreciation	(18,274,296)

Note receivable is utilized in the governmental activities as a financial resource and is not reported as an asset in the governmental funds.

Current Portion	340,000
Long Term Portion	5,780,000

Certain liabilities are not due and payable in the current period and therefore are not reported in the government funds.

Other Post Employment Benefits	(640,816)
Claims and Judgments Payable	(359,356)
Net Pension Liability	(108,064,229)

Deferred outflows of resources related to the change in proportionate share of the net pension liability and payments made subsequent to the measurement date.	27,562,322
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Deferred inflows of resources related to the net differences between projected and actual investment earnings and expected and actual experience.	(665,000)
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The internal service fund is used by management to account for medical benefits of the School's employees. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	2,479,821
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES **\$ (4,671,999)**

See accompanying notes to the financial statements.

PENNSYLVANIA CYBER CHARTER SCHOOL
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Fund Types
Year Ended June 30, 2016

	General
REVENUES	
Local Sources	\$ 123,950,552
State Sources	1,107,131
Federal Sources	2,174,421
TOTAL REVENUES	127,232,104
EXPENDITURES	
Instruction	82,739,667
Support Services	41,165,031
Non-Instructional Services	195,943
Capital Outlay	8,728
TOTAL EXPENDITURES	124,109,369
EXCESS OF REVENUES OVER EXPENDITURES	3,122,735
OTHER FINANCING SOURCES	
Sale of Fixed Assets	10,469
TOTAL OTHER FINANCING SOURCES	10,469
NET CHANGE IN FUND BALANCES	3,133,204
Fund Balance - July 1, 2015	37,205,512
Fund Balance - June 30, 2016	\$ 40,338,716

See accompanying notes to the financial statements.

PENNSYLVANIA CYBER CHARTER SCHOOL
Reconciliation of the Governmental Funds –
Statement of Revenues, Expenditures, and Changes in Fund Balances to the
Statement of Activities
Year Ended June 30, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 3,133,204

Amounts reported for *governmental activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Add: Capital Outlays - Net	\$ 4,478,682	
Less: Depreciation Expense	<u>(4,807,843)</u>	(329,161)

The governmental funds report proceeds from the sale of property and equipment as revenue. However, in the statement of activities, only the gain or loss (proceeds less depreciated cost) is recognized from the sale of fixed assets. This is the amount by which depreciated cost exceeded sales proceeds. (438,086)

The portion of the Notes Receivable which was collected in the current year is treated as revenue on the fund statements, while, on the government-wide statements, it is treated as a reduction to Notes Receivable. (340,000)

Certain items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Other Post Employment Benefits Expense		(82,189)
--	--	----------

Difference in amount expensed on the Statement of Activities for claims and judgments due to the timing of when the liability is recognized. (50,248)

The internal service fund is used by management to account for medical benefits of the School employees. The net loss of the activity of the internal service is reported with governmental activities. (450,729)

Pension expense is reported in governmental funds as an expenditure when payments are made or are due and payable. However, in the Statement of Activities, pension expense is recorded based on changes in the net pension liability. (6,385,219)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (4,942,428)**

See accompanying notes to the financial statements.

PENNSYLVANIA CYBER CHARTER SCHOOL
Statement of Net Position – Proprietary Fund
June 30, 2016

		Governmental Activities - Internal Service Fund
		Health Insurance Fund
		<hr/>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$	2,822,929
Other Receivables		<hr/> 272,480
TOTAL ASSETS		3,095,409
 LIABILITIES		
Current Liabilities		
Due to General Fund		23,268
Accrued Healthcare Costs		<hr/> 592,320
TOTAL LIABILITIES		<hr/> 615,588
TOTAL NET POSITION	\$	<hr/> <hr/> 2,479,821

See accompanying notes to the financial statements.

PENNSYLVANIA CYBER CHARTER SCHOOL
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund
Year Ended June 30, 2016

	Governmental Activities - Internal Service Fund
	Health Insurance Fund
	<hr/>
OPERATING REVENUES	
Charges for Services	\$ <u>8,208,600</u>
Total Operating Revenues	8,208,600
OPERATING EXPENSES	
Cost of Services	7,624,760
Administrative	<u>1,034,569</u>
Total Operating Expenses	<u>8,659,329</u>
Operating Loss	(450,729)
OPERATING TRANSFERS	
Transfers from General Fund	<u>-</u>
Change in Net Position	(450,729)
Net Position - July 1, 2015	<u>2,930,550</u>
Net Position - June 30, 2016	<u><u>\$ 2,479,821</u></u>

See accompanying notes to the financial statements.

PENNSYLVANIA CYBER CHARTER SCHOOL
Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2016

	Governmental Activities - Internal Service Fund	Health Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 8,208,600	
Cash Payments to Suppliers, net	<u>(8,968,143)</u>	
Net Cash Used in Operating Activities	<u>(759,543)</u>	
Net Decrease in Cash and Cash Equivalents	(759,543)	
Cash and Cash Equivalents - July 1, 2015	<u>3,582,472</u>	
Cash and Cash Equivalents - June 30, 2016	<u><u>\$ 2,822,929</u></u>	
 Reconciliation of Change in Net Position to Net Cash Used in Operating Activities		
Operating Loss	\$ (450,729)	
Changes in Operating Assets and Liabilities:		
Increase in Other Receivables	(159,910)	
Increase in Due to General Fund	23,268	
Decrease in Accrued Healthcare Costs	<u>(172,172)</u>	
Net Cash Used in Operating Activities	<u><u>\$ (759,543)</u></u>	

See accompanying notes to the financial statements.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 1 - REPORTING ENTITY

The Pennsylvania Cyber Charter School (The School) was formed under the laws of the state of Pennsylvania to provide elementary and secondary education to students through a computer managed learning system designed to meet individual students' needs and styles.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School. For the School, this includes general operations and student related activities of the School.

Component units are legally separate organizations for which the School is financially accountable. The School is financially accountable for an organization if the School appoints a voting majority of the organization's governing board and (1) the School is able to significantly influence the programs or services performed or provided by the organization; or (2) the School is legally entitled to or can otherwise access the organization's resources; the School is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School in that the School approves the budget or the issuance of debt. The School does not have any component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP and used by the School are described below.

A. Basis of Presentation

The School's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide financial statements – The statement of net position and the statement of activities display information about the School as a whole. These statements include the financial activities of the overall government.

The statement of net position presents the financial condition of the governmental and business-type activities of the School at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation (continued)

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental function is self-financing or draws from the general revenues of the School.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Fund financial statements – During the year, the School segregates transactions related to certain School functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds, if any, are aggregated and presented in a single column. The fiduciary funds, if any, are reported by type.

Proprietary fund financial statements – The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The School reports the internal service fund as a proprietary fund. An internal service fund accounts for operations that provide services to other departments of the School on a cost reimbursement basis. The Health Insurance Fund accounts for the employees' self-insured medical and dental benefits. Because the principal users of the internal services are the School's governmental activities, the financial statements of the internal service fund are consolidated into the governmental column when presented in the government-wide financial statements.

B. Measurement Focus/Basis of Accounting

The government-wide and proprietary fund 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 School uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus/Basis of Accounting (continued)

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. 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, early retirement, arbitrage rebates, post-employment healthcare benefits and pensions, are recorded only when payment is due.

The School reports the following major governmental fund:

General Fund—The General Fund is the operating fund of the School and is used to account for all financial resources except those required to be accounted for in another fund.

Additionally, the School reports the following proprietary fund type:

Internal Service Fund - accounts for risk management and health insurance costs provided to departments of the School.

C. Budgetary Process

The School passed an appropriated budget for the fiscal year ending June 30, 2016 with revenues totaling \$112,000,414 and expenditures totaling \$123,990,986.

The School is required by state law to adopt an annual budget for the General Fund. The budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles (“GAAP”).

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. The School prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. The School adopts a proposed budget, after ten days’ public notice of the meeting has been given.
3. Prior to July 1, the budget is legally enacted via resolution of the School.
4. The Budget for the general fund must be filed with the Office of Public Instruction within fifteen (15) days after the adoption of the budget.

Final Budget: The final budget for each year must be adopted (via Board vote) by June 30 of the preceding school fiscal year.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

Once the budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the School Board. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

D. Cash and Cash Equivalents

The School's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

E. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are offset against each other in the governmental and business-type activities columns of the statement of net position, except for amounts due to/from other funds which are not presented in the statement of net position.

F. Inventory

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method for all inventories. There was no inventory at June 30, 2016.

G. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	10-40 years
Furniture and Equipment	3-15 years
Computer Equipment	3 years

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Compensated Absences

The School has no compensated absences as of June 30, 2016.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Capital leases are recognized as a liability on the governmental fund financial statements when due.

J. Pension

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) 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.

General Information about the Pension Plan

Plan description

The School contributes to the Public School Employees' Retirement System (PSERS); a Governmental cost sharing multiple-employer defined benefit pension plan administered by the PSERS Board of Trustees under the authority of the Public School Employees' retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. 8101-8535). PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement and disability, legislatively mandated ad hoc cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. 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.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Pension (continued)

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.

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.

Contributions

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.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Pension (continued)

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 districts' contractually required contribution rate for fiscal year ended June 30, 2016 was 25.84% 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 \$8,527,050 for the fiscal year ended June 30, 2016.

K. Fund Balance Classifications

The GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) effective for reporting periods beginning after June 15, 2010. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the School's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the users of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, deposits and inventories.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

Restricted – Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Fund Balance Classifications (continued)

Committed – Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority (Board of Directors). The board of directors may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the board of directors removes or changes the specific use through the same type of formal action taken to establish the commitment. The board’s action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30th; however, the amount can be determined subsequent to the release of the financial statements.

Assigned – Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The School Board has delegated the Board Treasurer the authority to assign fund balance for specific purposes.

Unassigned – Fund balance of the general fund that is not constrained for any particular purpose.

Prioritization of Fund Balance Use

When expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the organization to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the organization that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

L. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Use of Estimates

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

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 3 - CASH AND CASH EQUIVALENTS

Under Section 440.1 of the Public School Code for 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 and investment policy of the School adheres to state statutes and prudent business practices. Deposits of the governmental funds are either maintained in demand deposits or savings accounts, certificates of deposit, or cash equivalents. 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.

The following is a description of the School's deposit and investment risks:

Custodial Credit Risk – The risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a formal deposit policy for custodial credit risk. As of June 30, 2016, \$39,299,608 of the School's bank balance of \$39,799,608 was exposed to custodial credit risk, however this balance is collateralized in accordance with Act 72 of the Pennsylvania State Legislature which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. These deposits have a carrying amount of \$38,792,673 as of June 30, 2016.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governments represent receivables earned by the School. At June 30, 2016, the following amounts were receivable from other governmental units.

	<u>Receivable</u>
Governmental Units:	
State	\$ 1,107,131
Federal - grant programs	1,586,065
Local Educational Agencies, net of allowance	7,277,380
Totals	\$ 9,970,576

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES (continued)

Allowance for Doubtful Accounts

Receivables are stated at the amount the School expects to collect. The School maintains allowances for doubtful accounts for estimated losses resulting from the inability of LEAs to make required payments. Based on management's assessment, the School provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. The allowance account was \$231,898 as of June 30, 2016.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

A summary of fixed assets recorded as of June 30, 2016 is as follows:

	Beginning Balance	Increases	Disposals/ Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,049,829	\$ -	\$ -	\$ 1,049,829
Total capital assets, not being depreciated	<u>1,049,829</u>	<u>-</u>	<u>-</u>	<u>1,049,829</u>
Capital assets, being depreciated:				
Buildings and Improvements	20,173,916	368,493	(943,811)	19,598,598
Furniture and Equipment	5,437,618	131,927	(1,723,714)	3,845,831
Computer Equipment	25,738,672	3,978,262	(7,380,353)	22,336,581
Total capital assets, being depreciated	<u>51,350,206</u>	<u>4,478,682</u>	<u>(10,047,878)</u>	<u>45,781,010</u>
Accumulated depreciation for:				
Buildings and Improvements	(2,648,259)	(589,757)	638,306	(2,599,710)
Furniture and Equipment	(3,770,404)	(431,216)	1,718,189	(2,483,431)
Computer Equipment	(16,657,582)	(3,786,870)	7,253,297	(13,191,155)
Total accumulated depreciation	<u>(23,076,245)</u>	<u>(4,807,843)</u>	<u>9,609,792</u>	<u>(18,274,296)</u>
Total capital assets, being depreciated, net:	<u>28,273,961</u>	<u>(329,161)</u>	<u>(438,086)</u>	<u>27,506,714</u>
Governmental activities capital assets, net:	<u>\$ 29,323,790</u>	<u>\$ (329,161)</u>	<u>\$ (438,086)</u>	<u>\$ 28,556,543</u>

Depreciation expense of \$4,807,843 for the fiscal year ended June 30, 2016 was not allocated to the various functions because the property, plant and equipment serve all functions of the School.

NOTE 6 - NOTES RECEIVABLE

On June 30, 2009, the School and the Lincoln Park Performing Arts Center (LPPAC) agreed to cancel a prepaid lease originally signed in May 2005. Additionally, LPPAC signed a promissory note agreeing to repay the School the remaining balance of \$8,500,000 in equal installments over a period of twenty-four years through June 30, 2034. As of June 30, 2016, the balance of this note receivable is \$6,120,000.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 7 - NET PENSION LIABILITY

The School contributed 100% of the required contribution to PSERS as follows:

<u>Year Ended June 30,</u>	<u>Amount of Employer Contribution</u>	<u>Contribution % of Covered Salaries</u>
2016	\$ 8,527,050	25.84%
2015	\$ 6,637,835	21.40%
2014	\$ 4,534,505	16.93%
2013	\$ 2,951,233	12.36%
2012	\$ 2,173,334	8.65%

At June 30, 2016, the School reported a liability of \$108,064,229 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2015, the School's proportion was 0.2495%, which was an increase of 0.0396% from its proportionate share measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the School recognized pension expense of \$14,928,541. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 219,000
Net difference between expected and actual experience	-	446,000
Changes in proportions	19,019,000	-
Contributions subsequent to the measurement date	<u>8,543,322</u>	<u>-</u>
Total	<u>\$ 27,562,322</u>	<u>\$ 665,000</u>

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 7 - NET PENSION LIABILITY (continued)

The School reported \$8,543,322 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30:	
2017	\$ 4,524,000
2018	4,524,000
2019	4,524,000
2020	4,782,000
Thereafter	-
	<u>\$ 18,354,000</u>

Actuarial assumptions

The total pension liability as of June 30, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, measurement date, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 7 - NET PENSION LIABILITY (continued)

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	70.0%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	<u>100%</u>	

The above was PSERS's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015.

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.08%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

The discount rate used to measure the total pension liability was 7.50%. 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.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 7 - NET PENSION LIABILITY (continued)

Sensitivity of the School'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 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School's proportionate share of the net pension liability	\$ 133,208,779	\$ 108,064,229	\$ 86,943,961

Pension plan fiduciary net position

The PSERS issues a publicly available Comprehensive Annual Financial Report that contains detailed information about PSERS' fiduciary net position which can be found on the System's website at www.psers.state.pa.us.

NOTE 8 - OPERATING LEASES - LESSEE

The School has various operating leases for office space that expire at various dates through October 2021, with optional renewable terms. Rental expense for these leases was approximately \$1,409,000 for the year ended June 30, 2016.

Future minimum lease payments under operating leases that have remaining noncancellable terms in excess of one year as of June 30, 2016, are:

Year Ending June 30, :		
2017	\$	1,124,502
2018		989,566
2019		948,596
2020		908,450
2021		478,058
2022 and beyond		56,965
Total Minimum Payments Required	\$	4,506,137

NOTE 9 - FUND BALANCE REPORTING

The School has classified its fund balances within the following hierarchy:

Nonspendable

As of June 30, 2016, \$447,786 of the School's fund balance is classified as nonspendable.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 9 - FUND BALANCE REPORTING (continued)

Spendable

The School has classified the spendable fund balances as Committed, Assigned and Unassigned and considered them to have been spent when expenditures are incurred. The School currently has no funds classified as Restricted.

Committed for PSERS – The Board has set aside certain spendable fund balance for the future, significant, scheduled increases in the PSERS employer contribution rate. At year end, the committed fund balance to cover PSERS rate increases is \$28,397,508.

Committed for Health Care – The Board has set aside certain spendable fund balance to cover projected increases in health care costs. At year end, the committed fund balance to cover these projected rate increases is \$5,691,192.

Assigned for OPEB Obligations – The Board Treasurer has set aside certain spendable fund balance for the future postemployment benefit obligations of the School. At year end, the assigned fund balance to cover the obligations is \$640,816.

Assigned for Legal Obligations – The Board Treasurer has set aside certain spendable fund balance for the future legal obligations of the School. At year end, the assigned fund balance to cover the obligations is \$359,356.

Unassigned – As of June 30, 2016, the unassigned fund balance for the General Fund is \$4,802,058.

NOTE 10 - CONTINGENCIES

Litigation

The School is involved in various legal proceedings, claims and litigation arising for the ordinary course of business. Management intends to vigorously defend the asserted claims. While the outcome of these matters is currently not determinable, management does not expect the ultimate costs to resolve these matters will have a materially adverse effect on the School's financial position at June 30, 2016, beyond the aforementioned assignment of fund balance. Fund balance has been assigned for matters that have settled prior to the issuance of the financial statement.

During 2012 several school districts filed a class action complaint, alleging that the School had received undue funds for the education of 4-year old kindergarten students. During fiscal 2014, the court issued an order granting class certification in the underlying state law case. The amount at issue is not yet clear, at this time an estimate of the loss, if any, cannot be made, however it could be material.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 10 - CONTINGENCIES (continued)

Grants

The School is potentially liable for any expenditure that may be disallowed pursuant to the terms of grant programs. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

The School received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2016.

NOTE 11 - RISK MANAGEMENT

As of July 1, 2008, the School has elected to self-fund the health and drug benefit program for its employees. Under the program, the School employs a third party administrator and pays all medical claims through them. In addition, the School purchases individual and aggregate stop-loss insurance from a commercial carrier to protect it from catastrophic claims. Settled claims have not exceeded the aggregate stop-loss insurance coverage for the past year, but the School retains the risk for medical claims above this coverage.

Changes in the estimate of the claims liability are as follows:

Liability balance - June 30, 2015	\$ 764,492
Incurred claims and estimates	7,452,588
Less:	
Claims paid during the period	<u>(7,624,760)</u>
Liability balance - June 30, 2016	<u>\$ 592,320</u>

NOTE 12 - POST-RETIREMENT HEALTH INSURANCE BENEFITS

The School sponsors a single employer defined benefit “other post-employment benefit” (OPEB) plan. The benefits provided to retirees of the School include the option of continuing on the School’s health care plan available to the active employees at his/her own expense until the retiree reaches age 65. Under this plan, retirees who meet certain age and service requirements may elect coverage for themselves and their spouse until they reach age 65 or three years, whichever comes first. Should the retiree not be eligible for Medicare at the end of the three year period, the retiree may elect to stay on the School’s health care plan at his/her expense until the retiree reaches Medicare eligibility. The School currently pays an explicit subsidy equal to 100% of the blended (active and retired) premium, plus the implicit subsidy equal to the difference between the actual retiree cost and the blended rate.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 12 - POST-RETIREMENT HEALTH INSURANCE BENEFITS (continued)

Currently, these benefits are provided through the School's self-funded health insurance plan (self-insurance). The School recognizes the cost of providing benefits by expensing the actual claims paid by the self-insurance on a pay-as-you-go basis. There are no plans at this time to fund the OPEB liability and therefore there are no plan assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The OPEB plan does not issue stand-alone financial reports. As allowed by GASB Statement 45, the School elected to report the OPEB plan liability on a prospective basis.

The annual OPEB cost was determined as part of the actuarial valuation. Additional information as of the last actuarial valuations follows:

Annual OPEB Cost and Net OPEB Obligation	
Annual Required Contribution	\$ 105,040
Interest on the Net OPEB Obligation	25,138
Adjustment on the ARC	<u>(34,295)</u>
Annual OPEB Costs	95,883
Less Contributions made	<u>(13,694)</u>
Increase in Net OPEB Obligation	82,189
Net OPEB obligation - beginning of year	558,627
Net OPEB obligation - end of year	<u><u>\$ 640,816</u></u>

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Financial Statements
Year Ended June 30, 2016

NOTE 12 - POST-RETIREMENT HEALTH INSURANCE BENEFITS (continued)

The actuarial methods and assumptions used in the latest actuarial valuation were as follows:

Valuation Date:	July 1, 2014
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Dollar
Remaining Amortization Period:	30 Years
Actuarial Assumption:	
Investment rate of return	4.50%
Inflation Rate	None
Health cost trend rates	Annual Increases in premium for retired medical prescription drug benefits are assumed to be 5% moving forward.

The School's Schedule of Funding Progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2014	\$ -	\$ 700,892	\$ 700,892	0.0%	\$ 26,783,846	2.62%

The required schedule of funding progress included as required supplementary information immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 13 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Claims and Judgments Payable	\$ 309,108	\$ 205,820	\$ (155,572)	\$ 359,356
Postemployment Benefits	558,627	95,883	(13,694)	640,816
Net Pension Liability	83,076,691	39,886,541	(14,899,003)	108,064,229
	<u>\$ 83,944,426</u>	<u>\$ 40,188,244</u>	<u>\$ (15,068,269)</u>	<u>\$ 109,064,401</u>

Required Supplementary Information

PENNSYLVANIA CYBER CHARTER SCHOOL
Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual – General Fund
Year Ended June 30, 2016
Required Supplementary Information (RSI)

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget	Budget to GAAP	Actual
	Original	Final		Positive (Negative)	Difference	Amounts GAAP basis
REVENUES						
Local Revenues	\$ 109,605,152	\$ 109,605,152	\$ 123,950,552	\$ 14,345,400	\$ -	\$ 123,950,552
State Program Revenues	164,357	164,357	1,107,131	942,774	-	1,107,131
Federal Program Revenues	2,225,905	2,225,905	2,174,421	(51,484)	-	2,174,421
TOTAL REVENUES	111,995,414	111,995,414	127,232,104	15,236,690	-	127,232,104
EXPENDITURES						
Regular Programs	60,844,603	60,844,603	69,411,267	(8,566,664)	-	69,411,267
Special Programs	19,017,771	19,017,771	12,498,724	6,519,047	-	12,498,724
Vocational Programs	-	-	-	-	-	-
Other Instructional Programs	759,474	759,474	829,676	(70,202)	-	829,676
Adult Education Programs	-	-	-	-	-	-
Community/Junior College Ed Programs	-	-	-	-	-	-
Pupil Personnel Services	10,205,208	10,205,208	9,789,883	415,325	-	9,789,883
Instructional Staff Services	2,512,789	2,512,789	2,280,058	232,731	-	2,280,058
Administrative Services	6,856,677	6,856,677	6,433,305	423,372	-	6,433,305
Pupil Health	764,391	764,391	807,314	(42,923)	-	807,314
Business Services	4,844,798	4,844,798	4,712,302	132,496	-	4,712,302
Operation & Maintenance of Plant Services	8,285,575	8,285,575	8,504,980	(219,405)	-	8,504,980
Student Transportation Services	-	-	-	-	-	-
Central & Other Support Services	9,502,674	9,502,674	8,637,188	865,486	-	8,637,188
Food Services	-	-	-	-	-	-
Student Activities	184,133	184,133	-	184,133	-	-
Community Services	20,063	20,063	168,071	(148,008)	-	168,071
Scholarships and Awards	-	-	27,873	(27,873)	-	27,873
Facilities Acquisition and Construction	135,625	135,625	8,728	126,897	-	8,728
Debt Service	57,205	57,205	-	57,205	-	-
TOTAL EXPENDITURES	123,990,986	123,990,986	124,109,369	(118,383)	-	124,109,369
Excess (Deficiency) of Revenues Over Expenditures	(11,995,572)	(11,995,572)	3,122,735	15,118,307	-	3,122,735
OTHER FINANCING SOURCES						
Sale or Compensation for Fixed Assets	5,000	5,000	10,469	5,469	-	10,469
TOTAL OTHER FINANCING SOURCES (USES)	5,000	5,000	10,469	5,469	-	10,469
Net Change in Fund Balances	(11,990,572)	(11,990,572)	3,133,204	15,123,776	-	3,133,204
Fund Balance - July 1, 2015	36,960,632	36,960,632	37,205,512	244,880	-	37,205,512
Fund Balance - June 30, 2016	\$ 24,970,060	\$ 24,970,060	\$ 40,338,716	\$ 15,368,656	\$ -	\$ 40,338,716

See independent auditor's report

PENNSYLVANIA CYBER CHARTER SCHOOL
Schedule of Funding Progress Other Post-Employment Benefits
June 30, 2016

Required Supplementary Information (RSI)

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Information in this schedule about funded status and funding progress is presented using the entry age actuarial cost method for that purpose. This information is intended to serve as a surrogate for the funding progress of the plan. The School has presented information from the first four valuations, which were first required by Governmental Accounting Standards Board (GASB) Statement 45. This information is presented prospectively. In subsequent years, the School will add to the schedule until six years of information has been met.

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2008	\$ -	\$ 270,651	\$ 270,651	0%	\$ 17,868,250	1.51%
7/1/2010	\$ -	\$ 531,596	\$ 531,596	0%	\$ 23,733,290	2.24%
7/1/2012	\$ -	\$ 587,308	\$ 587,308	0%	\$ 24,224,459	2.42%
7/1/2014	\$ -	\$ 700,892	\$ 700,892	0%	\$ 26,783,846	2.62%

See independent auditor's report.

PENNSYLVANIA CYBER CHARTER SCHOOL
Schedule of Proportionate Share of the Net Pension Liability and Related Ratios
Year Ended June 30, 2016

Required Supplementary Information (RSI)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
School's proportion of the net pension liability	0.2495%	0.2099%	0.1876%
School's proportionate share of the net pension liability	\$ 108,064,229	\$ 83,076,691	\$ 76,796,414
School's covered-employee payroll for the measurement date	\$ 32,099,631	\$ 26,783,846	\$ 24,079,261
School's proportionate share of the net pension liability as a percentage of its covered payroll	336.65%	310.17%	318.93%
Plan fiduciary net position as a percentage of the total net pension liability	54.36%	57.24%	54.49%

This information is based off the measurement date of the Net Pension Liability of June 30, 2015 for 2016, June 30, 2014 for 2015 and June 30, 2013 for 2014.

See independent auditor's report.

PENNSYLVANIA CYBER CHARTER SCHOOL
Schedule of Required Contributions
Year Ended June 30, 2016

Required Supplementary Information (RSI)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 8,527,050	\$ 6,637,835	\$ 6,637,835
Contributions in relation to the contractually required contribution	<u>(8,527,050)</u>	<u>(6,637,835)</u>	<u>(6,637,835)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 32,999,420	\$ 32,099,631	\$ 26,783,846
Contributions as a percentage of covered-employee payroll	25.84%	20.68%	16.93%

See independent auditor's report.

SINGLE AUDIT SUPPLEMENTARY REPORTS

PENNSYLVANIA CYBER CHARTER SCHOOL

List of Audit Report Distribution

- 1 Copy Office of the Budget/Bureau of Affairs
Special Audit Services Division
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Harrisburg, PA 17101
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Greensburg, PA 15601

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671 Third Street
Beaver, PA 15009

- 1 Copy Beaver Valley Intermediate Unit
147 Poplar Drive
Monaca, PA 15061

PENNSYLVANIA CYBER CHARTER SCHOOL
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Project Title	Source Code	Federal CFDA Number	Pass Through Grantor's Number	Grant Period From-To	Program or Award Amount	Total Received (Paid) For Year	Accrued (Deferred) Revenue July 1, 2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue June 30, 2016
U.S. Department of Education										
Passed through the PA Department of Education:										
Title I - Improving Basic Programs	I	84.010	013-15-0996	07/01/14 - 09/30/15	\$ 1,997,532	\$ (244,809)	\$ (244,809)	\$ -	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-16-0996	07/01/15 - 09/30/16	2,033,305	2,033,305	-	2,033,305	2,033,305	*
Title I SIG - Program Improv-Set Aside	I	84.010	042-14-0996	06/27/14 - 09/30/15	59,699	7,462	7,462	-	-	-
Title I SIG - Program Improv-Set Aside	I	84.010	042-15-0996	06/09/15 - 09/30/16	66,653	66,653	-	66,653	66,653	*
Total CFDA Number 84.010						1,862,611	(237,347)	2,099,958	2,099,958	-
Title II - Improving Teacher Quality	I	84.367	020-15-0996	07/01/14 - 09/30/15	74,666	(2,428)	(2,428)	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-16-0996	07/01/15 - 09/30/16	73,581	73,581	-	73,581	73,581	-
Total CFDA Number 84.367						71,153	(2,428)	73,581	73,581	-
Total U.S. Department of Education passed through the PA Department of Education						1,933,764	(239,775)	2,173,539	2,173,539	-
Passed through the Beaver Valley Intermediate Unit:										
IDEA 619 B Pass Through	I	84.173	27	07/01/14 - 06/30/15	3,572	3,572	3,572	-	-	-
IDEA 619 B Pass Through	I	84.173	27	07/01/15 - 06/30/16	2,147	-	-	2,147	2,147	2,147
Total CFDA Number 84.173						3,572	3,572	2,147	2,147	2,147
IDEA - ESY	I	84.027	27	07/01/15 - 06/30/16	2,900	2,900	-	2,900	2,900	-
IDEA	I	84.027	27	07/01/14 - 06/30/15	1,469,454	1,102,091	1,102,091	-	-	-
IDEA	I	84.027	27	07/01/15 - 06/30/16	1,434,943	478,315	-	1,434,843	1,434,843	956,528
Total CFDA Number 84.027						1,583,306	1,102,091	1,437,743	1,437,743	956,528
Total U.S. Department of Education passed through the Intermediate Unit (Special Education Cluster "IDEA")						1,586,878	1,105,663	1,439,890	1,439,890	958,675
U.S. Department of Health and Human Services										
Passed through the PA Department of Education:										
Title XIX - Medical Access	I	93.778		07/01/15-06/30/16	882	882	-	882	882	-
Total U.S. Department of Health and Human Services						882	-	882	882	-
Total Federal Assistance						\$ 3,521,524	\$ 865,888	\$ 3,614,311	\$ 3,614,311	\$ 958,675

Source Codes:

I=Indirect Funding
F=Federal Share
S=State Share

Footnotes:

* Selected for testing

Percentage test rule calculation:

Total Expenditures per above \$ 3,614,311
Total Federal Expenditures Tested = \$ 2,099,958 = 58%

See independent auditor's report and accompanying notes to the schedule of expenditures of federal awards.

PENNSYLVANIA CYBER CHARTER SCHOOL
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

NOTE 1 - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Pennsylvania Cyber Charter School (The School) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements on OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - BUDGETARY DATA

The School passed, and had approved by the appropriate agency, budgets for the fiscal year ending June 30, 2016 for all federal programs.

NOTE 3 - RECONCILIATION

Federal Awards per Schedule of Expenditures of Federal Awards	\$ 3,614,311
Pass-through Awards Recorded in Local Revenue	<u>(1,439,890)</u>
Per Financial Statement	<u><u>\$ 2,174,421</u></u>

See independent auditor's report.

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

Independent Auditor's Report

To the Board of Directors
Pennsylvania Cyber Charter School

We have audited, 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, the financial statements of the governmental activities, the business-type activities and each major fund of Pennsylvania Cyber Charter School as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Pennsylvania Cyber Charter School's basic financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control over Financial Reporting

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

(continued)

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

Independent Auditor's Report

(continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pennsylvania Cyber Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Greensburg, Pennsylvania
November 21, 2016

**Report on Compliance for Each Major Federal Program and Report on Internal Control Over
Compliance in Accordance with the Uniform Guidance**

Independent Auditor's Report

To the Board of Directors
Pennsylvania Cyber Charter School

Report on Compliance for Each Major Federal Program

We have audited Pennsylvania Cyber Charter School's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Pennsylvania Cyber Charter School's major federal programs for the fiscal year ended June 30, 2016. The Pennsylvania Cyber Charter School's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Pennsylvania Cyber Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pennsylvania Cyber Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Pennsylvania Cyber Charter School's compliance.

(continued)

**Report on Compliance for Each Major Federal Program and Report on Internal Control Over
Compliance in Accordance with the Uniform Guidance**

Independent Auditor's Report

(continued)

Opinion on Each Major Federal Program

In our opinion, Pennsylvania Cyber Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the each of its major federal programs for the fiscal year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Pennsylvania Cyber Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pennsylvania Cyber Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pennsylvania Cyber Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Greensburg, Pennsylvania
November 21, 2016

PENNSYLVANIA CYBER CHARTER SCHOOL
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:
 Material weaknesses identified? Yes No
 Significant deficiencies identified not considered to be
 material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:
 Material weaknesses identified? Yes No
 Significant deficiencies identified not considered to be
 material weaknesses? Yes None reported

Type of auditor’s report issued on compliance for major
 programs: Unmodified

Any audit findings disclosed that are required to be reported in
 accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Numbers</u>
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Title I – Improving Basic Programs and School Intervention Grant	84.010
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Dollar threshold used to distinguish between Type A and
 Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

None

PENNSYLVANIA CYBER CHARTER SCHOOL
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings to be reported by 2 CFR 200 Section 516(a) of the Uniform Guidance (e.g. report significant deficiencies, material weaknesses and instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None

PENNSYLVANIA CYBER CHARTER SCHOOL
Schedule of Prior Audit Findings
Year Ended June 30, 2016

Prior Year Findings

This section identifies the audit findings that were reported in the prior year by Section 510(a) of Circular A-133 (e.g. report significant deficiencies, material weaknesses and instances of noncompliance, including questioned costs).

None