



21ST CENTURY CYBER CHARTER SCHOOL

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2018



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FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*.....**



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INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees
21st Century Cyber Charter School
Downingtown, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the 21st Century Cyber Charter School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the 21st Century Cyber Charter School, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 12 to the financial statements, effective July 1, 2017, the 21st Century Cyber Charter School adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 58 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2018, on our consideration of the 21st Century Cyber Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
November 13, 2018**



21ST CENTURY CYBER CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplementary Information

June 30, 2018

The discussion and analysis of 21st Century Cyber Charter School's (Charter School) financial performance provides an overall review of the Charter School's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the Charter School's financial performance as a whole. Readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the Charter School's financial performance.

The Management 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 21st Century Cyber Charter School's financial results for the 2017-2018 school year resulted in a total net position of \$(4,675,818) and a Governmental Fund balance of \$5,266,452 at June 30, 2018. The June 30, 2016-17 restated net position was \$(3,742,302) and fund balance was \$4,922,888.

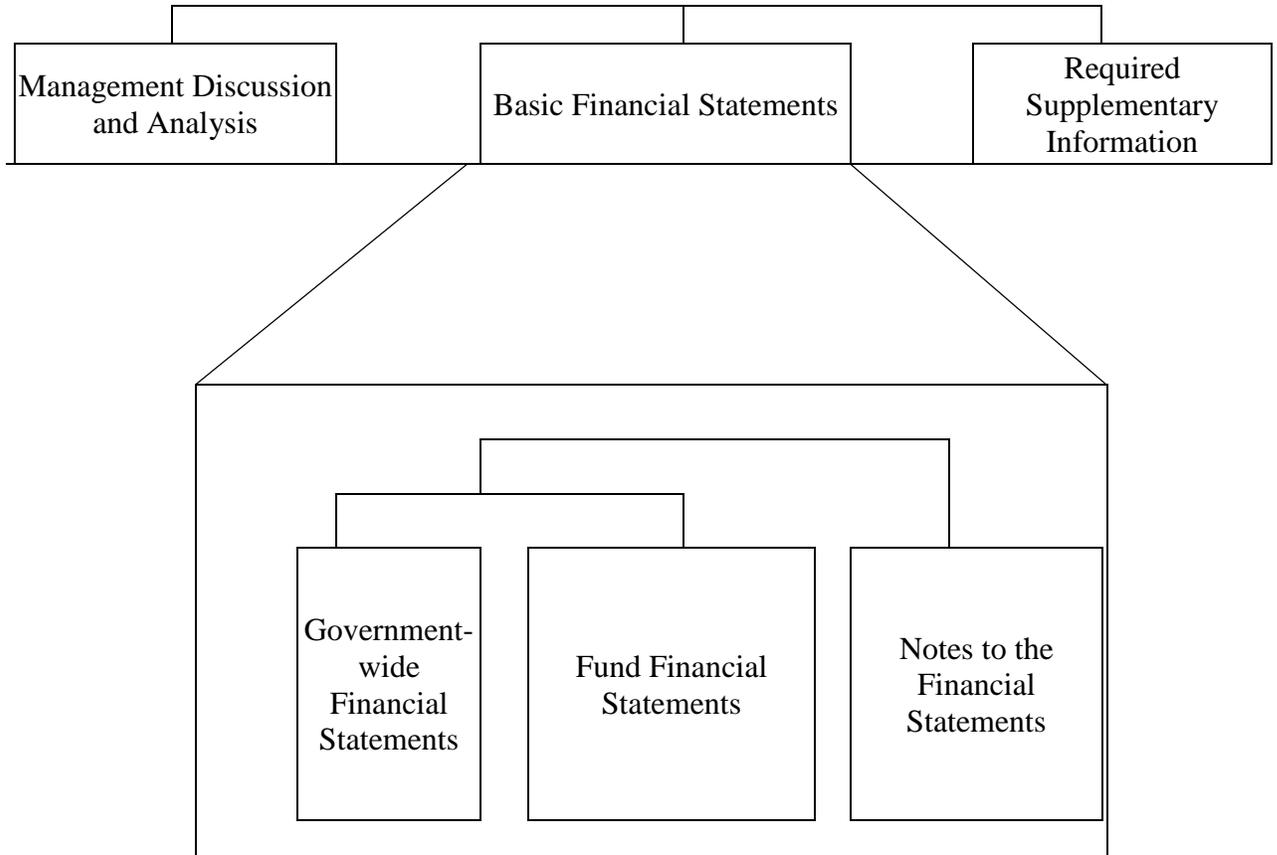
Governmental fund total assets at June 30, 2018 were \$6,719,827 compared to the June 30, 2017 balance of \$6,404,914.

The primary source of revenue for the Charter School is tuition charged to school districts at rates determined by the completion of PDE Form 363.

The Charter School implemented Government Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions effective July 1, 2017. Statement No. 75 establishes standards for measuring and recognizing liabilities, expenses, deferred outflows of resources and deferred inflows of resources in order to improve financial reporting for postemployment benefits other than pension. The implementation of this standard resulted in a restatement to net position at July 1, 2017 of \$(593,247).

Figure 1 shows how the required parts of the financial statements are arranged and relate to one another.

Figure 1
Required Components of 21st Century Cyber
Charter School’s Financial Report



OVERVIEW OF FINANCIAL STATEMENTS

Figure 2 summarizes the major features of the Charter School’s financial statements. The remainder of this overview section of Management’s Discussion and Analysis highlights the structure and contents of each of the statements.

Figure 2
21st Century Cyber Charter School's
Government-wide and Fund Financial Statements

		Fund Statements
	Government-wide Statements	Governmental Funds
Scope	Entire 21st Century Cyber Charter School (except fiduciary funds)	The activities of the Charter School that are not proprietary or fiduciary, such as education, administration and community services
Required financial statements	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or noncurrent liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-wide Statements

The government-wide statements report information about the Charter School as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all governmental assets and liabilities as well as deferred outflows and inflows of resources. Current year 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 Charter School's net position and how it has changed. Net position, the difference between assets and liabilities as well as deferred outflows and inflows of resources, is one way to measure the Charter School's financial health or position. Over time, increases or decreases in net position are an indication of whether the Charter School's financial health is improving or deteriorating.

Governmental activities – All of the Charter School's basic services are included here, such as instruction, administration and pupil health.

Fund Financial Statements

The fund financial statements provide more detailed information about the Charter School's funds. The Charter School has no non-major governmental, proprietary or fiduciary funds and reports all activity in a single governmental fund.

Governmental Funds – Includes the Charter School's basic services and generally (1) focuses on how cash and other financial assets can readily be converted into cash inflows and outflows and (2) identifies balances left at year-end that are available for spending. Financial results are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets. The governmental fund statements provide a detailed short-term view of the Charter School's operations and the services provided. Governmental fund information helps the reader determine the level of financial resources that can be spent in the near future to finance the Charter 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 reconciled in the financial statements.

FINANCIAL ANALYSIS OF THE 21ST CENTURY CYBER CHARTER SCHOOL AS A WHOLE

The Charter School's total net position was \$(4,675,818) as of June 30, 2018.

Figure 3		
Condensed Statement of Net Position		
June 30		
	Governmental Activities	
	2017	2018
Current and other assets	\$ 6,404,914	\$ 6,719,827
Capital Assets	<u>\$ 4,238,072</u>	<u>\$ 4,061,860</u>
Total Assets	\$10,642,986	\$10,781,687
Deferred Outflows of Resources	\$ 4,129,189	\$ 6,951,541
Current and other liabilities	\$ 1,482,026	\$ 1,453,375
Long-term liabilities	<u>\$ 15,979,204</u>	<u>\$ 20,581,671</u>
Total Liabilities	\$ 17,461,230	\$ 22,035,046
Deferred Inflows of Resources	\$ 460,000	\$ 374,000
Net Investment in Capital Assets	\$ 4,238,072	\$ 4,061,860
Unrestricted	<u>\$ (7,387,127)</u>	<u>\$ (8,737,678)</u>
Total Net Position	\$ (3,149,055)	\$ (4,675,818)

Current assets at June 30, 2018 included cash of \$5,370,522, intergovernmental and other receivables of \$1,217,162, and prepaid expenses of \$132,143.

Total liabilities increased in 2017-2018. Accounts payable balances were \$331,030, compared to the prior year balance of \$532,192. The decrease of \$201,162 is the result of minimal Building Acquisition and Construction Services during 2017-2018. Accrued salaries and benefits increased from \$940,364 at June 30, 2017 to \$1,113,065 at June 30, 2018, a result of increased staff due to increased enrollment. The compensated absences accrual, which reflects the value of unused vacation time increased from \$125,886 to \$208,850 (which reflects the long-term portion) as of June 30, 2018. The long-term liability related to GASB 75 – Accounting for Other Postemployment Benefits increased by \$76,503 to \$418,821 at the end of the 2017-2018 school year. Also, the long-term liability related to GASB 75 – Accounting for Other Postemployment Benefits – Health Insurance Premium is \$791,000 at the end of the 2017-2018 school year. This liability was not reflected on the Statement of Net Position prior to the implementation of GASB 75. The largest increase in liabilities was the Charter School's proportionate share of the net pension liability, which increased \$3,652,000 from the prior year totaling \$19,163,000 at June 30, 2018.

The results of this year's operations as a whole are reported in the Statement of Activities, and summarized below in Figure 4.

Figure 4		
Condensed Statement of Activities		
June 30		
	Governmental Activities	
Revenues	2017	2018
Program Revenues		
Charges for services	\$ 12,697,811	\$ 14,739,835
Operating grants and contributions	\$ 131,538	\$ 141,531
Capital grants and contributions	\$ 0	\$ 0
Investment Earnings	\$ 18,612	\$ 50,632
Total Revenues	\$ 12,847,961	\$ 14,931,998
Expenses		
Instruction - Regular Programs	\$ 5,470,251	\$ 6,167,632
Instruction - Special Programs	\$ 1,251,161	\$ 1,476,479
Instruction – Other Programs	\$ 142,509	\$ 177,512
Support Services	\$ 5,774,000	\$ 7,954,204
Noninstructional Services	\$ 89,659	\$ 89,687
Total Expenses	\$ 12,727,580	\$ 15,865,514
Increase (Decrease) in Net Position	\$ 120,381	\$ (933,516)
Beginning Net Position	\$ (3,269,436)	\$ (3,742,302)*
Ending Net Position	\$ (3,149,055)	\$ (4,675,818)

**Restated for implementation of GASB Statement No. 75. See Note 12 for further information.*

Increased enrollment in the Charter School generated additional tuition revenue of \$2,042,024 in 2017-2018 compared to the prior school year.

Total expenses in 2017-2018 were \$3,137,934 higher than in 2016-2017. The increase in operating expenses can be explained by increased staff due to enrollment, increased pension expense, and increased special education related services expenditures.

Figure 5 represents the cost of 5 major governmental activities: Regular Programs, Special Programs, Other Programs, Support Services, and Noninstructional Services. The table also shows each activity's net cost (total cost less fees generated by the activities and grants/subsidies provided for specific programs).

Figure 5				
Net Cost of Governmental Activities				
June 30				
	Total Cost of Services		Net Cost of Services	
	2017	2018	2017	2018
Instruction - Regular Programs	\$ 5,470,251	\$ 6,167,632	\$(81,435)	\$(668,968)
Instruction - Special Programs	1,251,161	1,476,479	64,543	(40,576)
Instruction - Other Programs	142,509	177,512	7,725	(7,413)
Support Services	5,774,000	7,954,204	112,905	(263,434)
Noninstructional Services	89,659	89,687	(1,969)	(3,757)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$12,727,580</u>	<u>\$15,865,514</u>	<u>\$101,769</u>	<u>\$(984,148)</u>

BUDGET HIGHLIGHTS

During the fiscal year, the Board authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures of the 21st Century Cyber Charter School. A schedule showing the Charter School's original and final budget amounts compared with amounts actually paid and received is provided in the financial statements.

The revenue budget projection at the budget adoption was 92% accurate. Out of a \$16,172,497 budget \$14,931,998 was collected. The difference is the budget was based on enrolling 1700 students. Actual enrollment is 1,617 students.

The expenditure budget was in under budget by \$1,525,117. The main reason for this was adjustments to spending based on not reaching projected enrollment numbers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the Charter School had \$ 4,061,860 invested in building improvements, furniture and computer equipment, net of depreciation.

Figure 6		
Capital Assets (net of depreciation)		
June 30		
	Governmental Activities	
	2017	2018
Construction in Progress	\$ 294,445	\$ 0
Building Improvements	\$ 3,462,793	\$ 3,696,139
Furniture & Computer Equipment	\$ <u>480,834</u>	\$ <u>365,721</u>
Total	\$ 4,238,072	\$ 4,061,860

Debt Administration

The 21st Century Cyber Charter School had no debt for 126 Wallace Avenue building and no debt for the renovations to 221 Blue Spruce Way, Murrysville, PA as of June 30, 2018.

ECONOMIC FACTORS AND THE CHARTER SCHOOL'S FUTURE

The 21st Century Cyber Charter School increased its teaching staff from fifty-five in 2016-2017 to fifty-eight in 2017-2018 as a direct result of a 13.2% increase in enrollment. Management has expanded the role of teaching assistants which allows teachers to service more students. In addition, as enrollments have increased, so has the demand for special education services. Total staff increased from ninety-eight in 2016-2017 to one hundred fourteen in 2017-2018. The trend of increasing enrollment is anticipated to continue into the foreseeable future. A concerted effort by the school to proactively seek increased enrollment has had the desired effect of bringing more students to the school.

A charter renewal for 2021-2022 to 2025-2026 is in process and will be completed in October 2019. A charter amendment was approved on October 26, 2016 to establish a satellite site in Murrysville, PA. This site has been established and is fully staffed.

In 2012-2013 the Pennsylvania changed the measurement for academic achievement from Adequate Yearly Progress to the Student Performance Profile. Each school is rated based on a number of student achievement factors based on a rating from 1 to 100+. In 2013-2014 21CCCS scored a 66.0 on the SPP, 69.2 in 2014-2015, and 61.1 in 2016-2017. The 2017-2018 SPP score will be received in the fall of the 2018-2019 School Year. The shift on the standardized tests to the core standards has raised a challenge to the school. Developers have aligned all of our classes to the standards and continue to adjust classes as the PSSA and Keystone exams change.

The Pennsylvania School Employees Retirement System (PSERS) retirement rate history table is below. These rates were determined by PSERS' actuary and are subject to certification by the PSERS Board of Trustees.

Year	Rate
2015-2016	25.84%
2016-2017	30.03%
<i>2017-2018</i>	<i>32.57%</i>
<i>2018-2019</i>	<i>33.43%</i>
<i>2019-2020</i>	<i>34.79%</i>

As the political climate stabilizes in Pennsylvania, there has seen little movement to seriously pass a charter school reform bill. Any change in the funding formula would likely be a part of that legislation. To date, no legislation has been passed regarding cyber charter school reform. The Board of Trustees has approved a program stabilization fund to provide financial assistance to the Charter School, if needed, should there be changes to the formula.

CONTACTING THE 21ST CENTURY CYBER CHARTER SCHOOL FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the Charter School's finances and to show accountability for the money received. If you have questions about this report or wish to request additional financial information, please contact the Open Records Officer, 21st Century Cyber Charter School, 126 Wallace Avenue, Downingtown, PA 19335, 484-875-5400.

21st CENTURY CYBER CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities
ASSETS	
Cash and Investments	\$ 5,370,522
Intergovernmental Receivables	1,217,162
Prepaid Expenses	132,143
Capital Assets, Net of Accumulated Depreciation	<u>4,061,860</u>
TOTAL ASSETS	<u>10,781,687</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources for Pension	6,735,579
Deferred Outflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	192,419
Deferred Outflows of Resources for Other Postemployment Benefits - Charter School Plan	<u>23,543</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>6,951,541</u>
LIABILITIES	
Accounts Payable	331,030
Accrued Salaries and Benefits	1,113,065
Unearned Revenues	9,280
Noncurrent Liabilities:	
Long-Term Portion of Compensated Absences	208,850
Net Pension Liability	19,163,000
Net Other Postemployment Benefit Obligation - Health Insurance Premium Assistance Program	791,000
Total Other Postemployment Benefit Obligation - Charter School Plan	<u>418,821</u>
TOTAL LIABILITIES	<u>22,035,046</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources for Pension	337,000
Deferred Inflows of Resources for Other Postemployment Benefits - Health Insurance Premium Assistance Program	<u>37,000</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>374,000</u>
NET POSITION	
Investment in Capital Assets	4,061,860
Unrestricted (Deficit)	<u>(8,737,678)</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ (4,675,818)</u>

See accompanying notes.

21st CENTURY CYBER CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities				
Instructional Services:				
Regular Programs - Elementary/Secondary	\$ 6,167,632	\$ 5,472,918	\$ 25,746	\$ (668,968)
Special Programs - Elementary/Secondary	1,476,479	1,336,146	99,757	(40,576)
Other Instructional Programs - Elementary/Secondary	177,512	170,099	-	(7,413)
Total Instructional Services	<u>7,821,623</u>	<u>6,979,163</u>	<u>125,503</u>	<u>(716,957)</u>
Support Services:				
Students	769,514	680,775	-	(88,739)
Instructional Staff	1,815,787	1,792,099	-	(23,688)
Administration	2,017,529	1,916,959	-	(100,570)
Pupil Health	112,777	95,996	16,028	(753)
Business Services	500,013	493,134	-	(6,879)
Operation and Maintenance of Plant Services	881,317	849,212	-	(32,105)
Central	1,857,267	1,846,567	-	(10,700)
Total Support Services	<u>7,954,204</u>	<u>7,674,742</u>	<u>16,028</u>	<u>(263,434)</u>
Noninstructional Services:				
Student Activities	89,687	85,930	-	(3,757)
Total Noninstructional Services	<u>89,687</u>	<u>85,930</u>	<u>-</u>	<u>(3,757)</u>
Total Governmental Activities	<u>\$ 15,865,514</u>	<u>\$ 14,739,835</u>	<u>\$ 141,531</u>	<u>(984,148)</u>
General Revenues:				
				<u>50,632</u>
				<u>50,632</u>
				<u>Change in Net Position</u>
				<u>(933,516)</u>
				<u>Net Position (Deficit) - Beginning of Year - Restated</u>
				<u>(3,742,302)</u>
				<u>Net Position (Deficit) - End of Year</u>
				<u>\$ (4,675,818)</u>

See accompanying notes.

21st CENTURY CYBER CHARTER SCHOOL

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2018

	<u>General Fund</u>
ASSETS	
Cash and Investments	\$ 5,370,522
Intergovernmental Receivables	1,217,162
Prepaid Expenditures	<u>132,143</u>
TOTAL ASSETS	<u>\$ 6,719,827</u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 331,030
Accrued Salaries and Benefits	1,113,065
Unearned Revenues	<u>9,280</u>
TOTAL LIABILITIES	1,453,375
 FUND BALANCE	
Nonspendable:	
Prepaid Expenditures	132,143
Committed:	
Future Building Fund	3,500,000
Future Capital Equipment/Software/Furniture Purchases	327,453
New Initiatives Fund	177,857
Program Contingency Fund	1,000,000
Assigned:	
PSERS Retirement Rate Increases	35,000
Health Insurance Rate Increases	31,697
Unassigned	<u>62,302</u>
TOTAL FUND BALANCE	<u>5,266,452</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 6,719,827</u>

21st CENTURY CYBER CHARTER SCHOOL

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2018

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

TOTAL FUND BALANCE - GOVERNMENTAL FUND	\$ 5,266,452
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$5,201,020 and the accumulated depreciation is \$1,139,160.	4,061,860
The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements.	(12,764,421)
The other postemployment benefit obligations and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements.	(1,030,859)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Long-Term Portion of Compensated Absences	<u>(208,850)</u>
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	<u><u>\$ (4,675,818)</u></u>

21st CENTURY CYBER CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

For the Year Ended June 30, 2018

	<u>General Fund</u>
REVENUES	
Local Sources	\$ 14,890,224
State Sources	<u>41,774</u>
	TOTAL REVENUES
	14,931,998
EXPENDITURES	
Current:	
Instructional Services	6,907,477
Support Services	7,566,153
Operation of Noninstructional Services	85,046
Capital Outlay	<u>29,758</u>
	TOTAL EXPENDITURES
	<u>14,588,434</u>
	CHANGE IN FUND BALANCE
	343,564
FUND BALANCE - BEGINNING OF YEAR	<u>4,922,888</u>
	FUND BALANCE - END OF YEAR
	<u><u>\$ 5,266,452</u></u>

21st CENTURY CYBER CHARTER SCHOOL

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

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

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$ 343,564
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>	
Capital Outlays	\$ 22,195
Less: Depreciation Expense	(198,242)
Less: Loss on Disposals	<u>(165)</u>
	(176,212)
<p>In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year.</p>	
	(82,964)
<p>The change in net pension liability and related deferred outflows and inflows of resources for pension are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.</p>	
	(922,610)
<p>The change in other postemployment benefit obligations and related deferred outflows and inflows of resources for other postemployment benefits are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.</p>	
	<u>(95,294)</u>
CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (933,516)</u>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

The 21st Century Cyber Charter School (the "Charter School") was originally chartered through West Chester Area School District. The Charter School was established in April 2001 and began operations in July 2001. Effective July 1, 2006, the Charter School became chartered directly through the Pennsylvania Department of Education. The current charter expired June 30, 2016; the renewal is currently being processed by the Pennsylvania Department of Education.

The Charter School is located in Downingtown, Pennsylvania, and was established to provide services to students located in Pennsylvania. The Charter School is governed by a board consisting of the executive directors of the Bucks, Chester, Delaware, and Montgomery County Intermediate Units, two school district superintendents from each of those counties, and three parent members.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 21st Century Cyber Charter School have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting principles are as follows:

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Charter School and its component units.

The Charter School used guidance contained in generally accepted accounting principles to evaluate the possible inclusion of related entities (authorities, boards, councils, etc.) within its reporting entity. Accounting principles generally accepted in the United States of America require that the reporting entity consists of the primary government and organizations for which the primary government is financially accountable. In addition, the primary government may determine through the exercise of management's professional judgment that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization should be included as a component unit if the nature and significance of their relationship with the primary government or other component units are such that the exclusion from the financial reporting entity would render the financial reporting entity's financial statements incomplete or misleading. In evaluating how to define the reporting entity, management has considered all potential component units.

Based on the foregoing criteria, the Charter School has determined it has no component units.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Government-Wide Financial Statements

Government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity, except for its fiduciary activities. All fiduciary activities are reported only in the fund financial statements. The government-wide statements include separate columns for the governmental and business-type activities of the primary government, as well as any discretely presented component units. Governmental activities, which normally are supported by intergovernmental revenues and other nonexchange transactions, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable. The Charter School presently only has governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function to the Charter School are offset by the program revenues related to that function. Direct expenses are those that are directly related to and clearly identified with a function. Program revenues include 1) charges to customers or others who purchase, use or directly benefit from services or goods provided by a given function, or 2) grants and contributions that are restricted to meet the operational or capital requirements of a function. Other items properly not included in program revenues are reported as general revenues.

C. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Charter School Reports the Following Major Governmental Fund:

General Fund: The general fund is the general operating fund of the Charter School. It is used to account for all financial resources. All activities of the Charter School are accounted for through this fund.

The Charter School does not currently have any enterprise or fiduciary funds.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Charter School considers revenues to be available if they are collected within 120 days of the end of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. If time eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the Charter School.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

E. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations, except unexpended grant appropriations and encumbrances, lapse at fiscal year end. The Charter School's 2017-2018 budget was prepared and approved by the board of directors prior to submitting the budget to the Pennsylvania Department of Education.

All budget amounts presented in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budget during the year.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position

1. Cash and Cash Equivalents

The Charter School's reporting entity considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments are stated at fair value in accordance with Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application, except for investments in external investment pools, which are valued at amortized costs if required criteria are met as outlined in Governmental Accounting Standards Board Statement No. 79, Certain External Investment Pools and Pool Participant.

The Charter School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

3. Receivables

The intergovernmental receivables are amounts due from local school districts and the Pennsylvania Department of Education (PDE).

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The costs of prepaid items are recorded as expenditures/expenses when consumed rather than when purchased.

5. Capital Assets, Depreciation, and Amortization

The Charter School's capital assets with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the Charter School values these capital assets at the estimated fair value of the item at the date of its donation.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Capital Assets, Depreciation, and Amortization - continued

The Charter School generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

<u>Assets</u>	<u>Years</u>
Building and building improvements	20 - 50
Furniture and computer equipment	5 - 20

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses) until then. The Charter School has two items that qualify for reporting in this category:

Deferred outflows of resources for pension relates to the Charter School's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the pension plan. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow. Also included are contributions made to the pension plan subsequent to the measurement date and prior to the Charter School's year end. The contributions will be recognized as a reduction in net pension liability in the following year.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

6. Deferred Outflows/Inflows of Resources - continued

Deferred outflows of resources for other postemployment benefit obligations relates to the Charter School's obligation for postemployment benefits other than pensions and related expenses and arises from the changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the plan. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred outflow. Also included are contributions or benefit payments made subsequent to the measurement date and prior to the Charter School's year end. These payments will be recognized as a reduction to the net other postemployment benefit obligation in the following year.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Charter School has two types of items that qualify for reporting in this category.

Deferred inflows of resources for pensions relates to the Charter School's net pension liability and pension expense and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the pension plan. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

Deferred inflows of resources for other postemployment benefit obligations relates to the Charter School's obligation for postemployment benefits other than pensions and related expenses and arises from changes in assumptions, actual versus expected results, changes in benefits, variances in expected versus actual investment earnings, changes in the employer's proportion, or differences between employer contributions and the proportionate share of total contributions reported by the plan. These amounts are deferred and amortized over either a closed 5-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

7. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide and governmental fund financial statements. Unearned revenues arise when resources are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Charter School has legal claim to the resources, the liability for unearned revenue is removed from the respective financial statements and revenue is recognized.

8. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in the capital assets component of net position is comprised 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. In addition, any deferred outflows of resources and/or deferred inflows of resources related to such capital assets or liabilities associated with the capital assets should also be added to or deducted from the overall net investment in capital assets. The restricted component of net position is used when there are limitations imposed on their use either through the enabling legislation adopted by a higher governmental authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining component of net position is unrestricted.

The Charter School applies restricted resources first when an expense is incurred for purposes for which both the restricted and unrestricted components of net position are available.

9. Fund Balance Policies and Flow Assumptions

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Charter School itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The restricted fund balance classification represents funds that are limited in use due to constraints for a specific purpose through restrictions by external parties, grant agreements, or enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Charter School's highest level of decision-making authority. The board of directors is the highest level of decision-making authority for the Charter School that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

9. Fund Balance Policies and Flow Assumptions - continued

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The director/CEO or designee may assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The Charter School does not have a minimum fund balance policy.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The Charter School's policy states there are no restrictions placed on the order of the unrestricted fund balances used when an expenditure is incurred for a purpose in which unrestricted fund balance amounts are available under committed, assigned, or unassigned fund balance. The decision will be made at the discretion of the director/CEO.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions (including special assessments) that are restricted to meeting the operations or capital requirements of a particular function or segment. Other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Resident School District Payments

Local sources revenue includes amounts paid by various school districts for the students enrolled in the Charter School who reside within that particular school district. Payment charges per student enrolled vary by district and are calculated annually under Section 1725-A of the Pennsylvania Public School Code. This revenue is earned and recognized during the applicable school year, net of any refunds.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues/Expenditures/Expenses - continued

3. Compensated Absences

The Charter School allows employees to accumulate sick and vacation leave based on contractual agreements. An employee must be with the Charter School for 10 years before they are eligible for a pay-out of sick days. Once eligible, employees are paid at 50% of their per diem rate, up to a maximum of \$7,500.

H. Use of Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

The Charter School has no material violations of finance related legal and contractual provisions.

B. Deficit Fund Balance or Net Position of Individual Funds

For the year ended June 30, 2018, no individual funds had a deficit fund balance or net position.

C. Excess of Expenditures Over Appropriations in Individual Funds

No individual fund, which had a legally adopted budget, had an excess of expenditures over appropriations.

D. Budgetary Compliance

The Charter School's only legally adopted budget is for the General Fund. All budgetary transfers were made within the last nine months of the fiscal year. The Charter School cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2018. In addition, the Charter School includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS

Under Section 440.1 of the Public School Code of 1949, as amended, the Charter School is permitted to invest funds 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 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, therefore, shall be pledged by the depository.

Pennsylvania Act 10 of 2016 became effective May 25, 2016, and expanded the permitted investment types to include commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals as long as certain safeguards related to credit quality and maturity are met.

The deposit and investment policy of the Charter School adheres to state statutes. There were no deposits or investment transactions during the year that were in violation of either the state statutes or the policy of the Charter School.

The breakdown of total cash and investments on the financial statements are as follows at June 30, 2018:

Petty cash	\$ 75
Demand deposits	1,333,552
Pooled cash and investments	<u>4,036,895</u>
	<u>\$ 5,370,522</u>

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Charter School does not have a policy for custodial credit risk. As of June 30, 2018, the carrying amount of the Charter School's deposits was \$1,333,552 and the bank balance was \$1,480,242. Of the bank balance, \$250,000 was covered by federal depository insurance and \$1,230,242 of the Charter School's bank balance was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72 of the 1971 Session of the General Assembly.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments

As of June 30, 2018, the Charter School had the following pooled cash and investments:

	<u>Fair Value</u>	<u>Carrying Value</u>
PA School District Liquid Asset Fund:		
Collateralized Pool	\$ 2,000,000	\$ 2,000,000
Full Flex Pool	1,000,000	1,000,000
MAX Account Balance	<u>1,036,895</u>	<u>1,036,895</u>
 Total Pooled Cash and Investments		 <u><u>\$ 4,036,895</u></u>

Certain external investments held by the Charter School, based on portfolio maturity, quality, diversification, and liquidity measures, qualify for measurement at amortized cost at both the pool and participating government level consistent with GASB Statement No. 79. The Charter School measures those investments, which include \$4,036,895 (PSDLAF) at amortized cost. All investments in external investment pools that are not registered with the Securities and Exchange Commission are subject to oversight by the Commonwealth of Pennsylvania.

A portion of the Charter School's deposits were in the Pennsylvania School District Liquid Asset Fund. PSDLAF acts like a money market mutual fund in that the objective is to maintain a stable net asset value of \$1 per share, is rated by nationally recognized statistical rating organization, and is subject to an independent annual audit.

The PSDLAF Full Flex Pool and Collateralized Pool, as part of the Fixed-Term Series at PSDLAF, are fixed-term investments collateralized in accordance with Act 72 and invests in assets listed above as permitted under Section 440.1 of the Public School Code of 1949. The Fixed-Term Series are fixed-term investment vehicles with maturities depending upon the maturity date of each particular Fixed-Term Series. All investments in a Fixed-Term Series by a Settlor are intended to be deposited for the full term of the particular Fixed-Term Series; however, participants in the full flex pool may remove funds without early withdrawal penalty. Whether a Fixed-Term Series has only one Settlor or more than one Settlor participating in it, each certificate of deposit in which the monies in such Fixed-Term Series are invested is registered in the name of that particular Fixed-Term Series.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS - CONTINUED

Investments - continued

The PSDMAX fund invests in U.S. treasury securities, U.S. government securities, its agencies and instrumentalities, and repurchase agreements, collateralized by such securities and contracted with highly-rated counterparties. Weighted average portfolio maturity for the fund is expected to be kept at or below 60 days. PSDMAX does not have limitations or restrictions on withdrawals.

As of June 30, 2018, the entire PSDLAF book balance of \$4,036,895 is considered to be a cash equivalent for presentation on the government-wide and fund financial statements.

Interest Rate Risk

The Charter School does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Charter School has no investment policy that would limit its investment choices to certain credit ratings. As of June 30, 2018, the Charter School's investments were rated as:

<u>Investment</u>	<u>Standard & Poor's</u>
Pennsylvania School District Liquid Asset Fund	AAA

Concentration of Credit Risk

The Charter School places no limit on the amount the Charter School may invest in any one issuer. As of June 30, 2018, the Charter School did not have any investments subject to concentration of credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Charter School will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Charter School has no investment subject to custodial credit risk.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

The intergovernmental and state receivables are due from local school districts and the Pennsylvania Department of Education (PDE); therefore, management believes that they are fully collectible. Thus, no allowance has been deemed necessary or recorded in the accompanying financial statements. The intergovernmental receivables balance totals \$1,217,162 as of June 30, 2018.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 5 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2018, were as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease/ Transfers</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 294,445	\$ 5,972	\$ (300,417)	\$ -
Capital Assets Being Depreciated:				
Building and Building Improvements	3,686,693	10,586	300,417	3,997,696
Furniture and Computer Equipment	<u>1,205,250</u>	<u>5,637</u>	<u>(7,563)</u>	<u>1,203,324</u>
Total Assets Being Depreciated	<u>4,891,943</u>	<u>16,223</u>	<u>292,854</u>	<u>5,201,020</u>
Less Accumulated Depreciation For:				
Building and Building Improvements	223,900	77,657	-	301,557
Furniture and Computer Equipment	<u>724,416</u>	<u>120,585</u>	<u>(7,398)</u>	<u>837,603</u>
Total Accumulated Depreciation	<u>948,316</u>	<u>198,242</u>	<u>(7,398)</u>	<u>1,139,160</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>3,943,627</u>	<u>214,465</u>	<u>285,456</u>	<u>4,061,860</u>
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 4,238,072</u>	<u>\$ (176,047)</u>	<u>\$ (165)</u>	<u>\$ 4,061,860</u>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 5 - CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/programs of the governmental activities of the primary government as follows:

Instructional Services:		
Regular Education - Elementary/Secondary	\$	73,608
Special Education - Elementary/Secondary		17,970
Other Instructional Programs - Elementary/Secondary		2,288
Support Services:		
Students		9,156
Instructional Staff		24,103
Administration		25,782
Pupil Health		1,291
Business Services		6,632
Operation and Maintenance of Plant Services		11,421
Central		24,835
Noninstructional Services		<u>1,156</u>
TOTAL DEPRECIATION EXPENSE -		
GOVERNMENTAL ACTIVITIES		<u><u>\$ 198,242</u></u>

NOTE 6 - COMPENSATED ABSENCES

Long-term liability balance and activity, except for the net pension liability and other postemployment benefit obligation, for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	<u>\$ 125,886</u>	<u>\$ 93,124</u>	<u>\$ 10,160</u>	<u>\$ 208,850</u>	<u>\$ -</u>

The compensated absence liability will be liquidated by the general fund.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT PLAN

Employee Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) 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

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

Benefits Provided

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 2.0% 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 5 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 10 years of service.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Benefits Provided - continued

Participants are eligible for disability retirement benefits after completion of 5 years of credited service. Such benefits are generally equal to 2.0% 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 1 year of credited service (age 65 with at least 3 years of credited service for Class T-E and Class T-F members) or who has at least 5 years of credited service (10 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

The contribution policy is set by State Statute and requires contributions by active members and employers.

Member Contributions:

Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class TC) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.

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

Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

Employer Contributions:

The Charter School's contractually required contribution rate for the fiscal year ended June 30, 2018 was 31.74% 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 Charter School were \$2,042,783 for the year ended June 30, 2018.

The Charter School is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. See Note 8.

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

At June 30, 2018, the Charter School reported a liability of \$19,163,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The Charter 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, 2018, the Charter School's proportion was 0.0388%, which was an increase of 0.0075% from its proportion measured as of June 30, 2017. The net pension liability will be liquidated through future contributions to PSERS at the statutory rates. Contributions will be made from the general fund.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

For the year ended June 30, 2018, the Charter School recognized pension expense of \$2,965,393. At June 30, 2018, the Charter School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 200,000	\$ 116,000
Changes in assumptions	521,000	-
Net difference between projected and actual investment earnings	444,000	-
Changes in proportion - plan level	3,444,000	221,000
Difference between employer contributions and proportionate share of total contributions	83,796	-
Contributions made subsequent to the measurement date	<u>2,042,783</u>	<u>-</u>
	<u>\$ 6,735,579</u>	<u>\$ 337,000</u>

The \$2,042,783 reported as deferred outflows of resources related to pensions resulting from Charter School contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2019	\$ 1,236,394
2020	1,305,478
2021	1,187,459
2022	<u>626,465</u>
	<u>\$ 4,355,796</u>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions

The total pension liability at June 30, 2017 was determined by rolling forward the System's total pension liability at June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.25%, includes inflation at 2.75%.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	(20.0%)	1.1%
	<u>100.0%</u>	

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

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Charter School's proportionate share of the net pension liability	\$ 23,588,000	\$ 19,163,000	\$ 15,427,000

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2018, the Charter School had an accrued balance due to PSERS, including contributions related to pension and OPEB of \$565,652. This amount represents the Charter School's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

403(b) Tax Shelter Plan

The Charter School has established a 403(b) tax shelter plan permitting the establishment of accounts for school employees to voluntarily set aside monies to supplement their retirement income. All school employees are eligible to participate. The Charter School contributes to the plan for certain employees based on employment agreements.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

Employee Defined Benefit Other Postemployment Benefits Plan

The Health Insurance Premium Assistance Program (HIPAP) is a cost-sharing, multiple-employer, employee defined benefit other postemployment benefits plan administered by PSERS.

Summary of Significant Accounting Policies

Other Postemployment Benefits

For purposes of measuring the net OPEB obligation, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS) and additions to/deductions from PSERS's fiduciary net position have been determined on the same basis as they are reported by PSERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information About the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

The System provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the HIPAP if they satisfy the following criteria:

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

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the Health Insurance Premium Assistance Program - continued

Pension Plan Description

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were no assumed future benefit increases to participating eligible retirees.

Contributions

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The Charter School's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the Charter School were \$53,419 for the year ended June 30, 2018.

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the Charter School reported an obligation of \$791,000 for its proportionate share of the net OPEB obligation. The net OPEB obligation was measured as of June 30, 2017, and the total OPEB obligation used to calculate the net OPEB obligation was determined by rolling forward the System's total OPEB obligation as of June 30, 2016 to June 30, 2017. The Charter School's proportion of the net OPEB obligation 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, 2018, the Charter School's proportion was 0.0388%, which was an increase of 0.0075% from its proportion measured as of June 30, 2017. The net OPEB obligation will be liquidated through future contributions to PSERS at statutory rates. Contributions will be made from the general fund.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

For the year ended June 30, 2018, the Charter School recognized OPEB expense of \$58,243. At June 30, 2018, the Charter School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	37,000
Net difference between projected and actual investment earnings	1,000	-
Changes in proportion	138,000	-
Contributions made subsequent to the measurement date	53,419	-
	<u>\$ 192,419</u>	<u>\$ 37,000</u>

The \$53,419 reported as deferred outflows of resources related to OPEB resulting from Charter School contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB obligation in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	\$ 17,000
2020	17,000
2021	17,000
2022	17,000
2023	17,000
Thereafter	<u>17,000</u>
	<u>\$ 102,000</u>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

Actuarial Assumptions

The total OPEB obligation as of June 30, 2017, was determined by rolling forward the System's total OPEB obligation as of June 30, 2016 to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 3.13% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
 - Eligible retirees will elect to participate Pre-age 65 at 50%
 - Eligible retirees will elect to participate Post-age 65 at 70%

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015 determined the employer contribution rate for fiscal year 2017.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

Actuarial Assumptions - continued

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
Fixed income	<u>23.6%</u>	1.5%
	<u>100.0%</u>	

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

Discount Rate

The discount rate used to measure the total OPEB obligation was 3.13%. Under the plan's funding policy, contributions are structured for short term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 3.13% which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

Sensitivity of the Charter School's Proportionate Share of the Net OPEB Obligation to Changes in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the Charter School's proportionate share of the net OPEB obligation for the June 30, 2017 measurement date, calculated using current Healthcare cost trends as well as what the Charter School's proportionate share of the net OPEB obligation would be if the health cost trends were one-percentage point lower or one-percentage point higher than the current rate:

	<u>1% Decrease (Between 4% to 7%)</u>	<u>Current Rate (Between 5% to 8%)</u>	<u>1% Increase (Between 6% to 9%)</u>
Charter School's proportionate share of the net OPEB obligation	\$ 790,000	\$ 791,000	\$ 791,000

Sensitivity of the Charter School's Proportionate Share of the Net OPEB Obligation to Changes in the Discount Rate

The following presents the net OPEB obligation, calculated using the discount rate of 3.13%, as well as what the net OPEB obligation would be if it were calculated using a discount rate that is one-percentage point lower (2.13%) or one-percentage-point higher (4.13%) than the current rate:

	<u>1% Decrease 2.13%</u>	<u>Current Discount Rate 3.13%</u>	<u>1% Increase 4.13%</u>
Charter School's proportionate share of the net OPEB obligation	\$ 899,000	\$ 791,000	\$ 701,000

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 8 - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

HIPAP OPEB Obligation, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

OPEB Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2018, the Charter School had an accrued balance due to PSERS of \$565,652, including balances related to pension and OPEB. This amount represents the Charter School's contractually obligated contributions for wages earned in April 2018 through June 2018. The balance was paid in September 2018.

NOTE 9 - CHARTER SCHOOL OTHER POSTEMPLOYMENT BENEFITS PLAN

Employee Defined Benefit Other Postemployment Benefits Plan

General Information About the OPEB Plan

Plan Description

21st Century Cyber Charter School administers a single-employer defined benefit healthcare plan (the OPEB Plan). The Charter School OPEB Plan provides medical, prescription drug, dental, vision, and life insurance for eligible retirees through the Charter School's health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiation with the Charter School and the unions representing the Charter School's employees. The OPEB Plan does not issue a publicly available financial report and no assets are accumulated in a trust that meets the criteria in Government Accounting Standards Board Statement No. 75 to pay related benefits.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - CHARTER SCHOOL OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided

The Charter School classifies employees in the following categories: Administrators and Project Staffing. Contribution requirements are negotiated between the Charter School and union representatives. Below is a summary of the postemployment benefits provided to each of these groups:

Administrators

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Act 110/43 requirements or PSERS Retirement with 10 to 19 years of service with 21CCCS	<p><u>Coverage</u> Medical, Prescription Drug, Dental, Vision, and Life Insurance</p> <p><u>Premium Sharing</u> The maximum life insurance provided to a retiree is 2.5 times annual base salary prior to retirement up to a maximum coverage amount of \$350,000. The Charter School will pay ½ the cost of premium for the group term life insurance.</p> <p>If the Retiree is eligible for PSERS retirement with at least 10 years of service with the Charter School, the Charter School will provide a subsidy for one year of medical, prescription drug, dental and vision coverage for every 2 years of service with the school, up to a maximum of 7 years. Retiree will provide payment equal to the premium determined for the purpose of COBRA for dental and vision coverage. For medical and prescription drug premiums, the Charter School's contribution level will be the same dollar amount contributed in the retiree's last year of employment. Retiree must pay the active employee cost share amount at retirement as well as any increases in premium.</p> <p><u>Dependents</u> Spouse and Family included</p>	<p>Member coverage is provided until the later of a) the expiration of the Charter School's subsidy or b) Member Medicare age.</p> <p>Spousal coverage is provided until the later of a) expiration of the Charter School's subsidy or b) earlier of Member Medicare age or Spouse Medicare age.</p> <p>Life insurance is provided until the member age 65.</p>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - CHARTER SCHOOL OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided - continued

Administrators - continued

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
<p>Act 110/43 requirements or PSERS Retirement with 20 or more years of service with 21CCCS</p>	<p><u>Coverage</u> Medical, Prescription Drug, Dental, Vision, and Life Insurance</p> <p><u>Premium Sharing</u> The maximum life insurance provided to a retiree is 2.5 times annual base salary prior to retirement up to a maximum coverage amount of \$350,000. The Charter School will pay ½ the cost of premium for the group term life insurance.</p> <p>If the Retiree is eligible for PSERS retirement with at least 10 years of service with the Charter School, the Charter School will provide a subsidy for one year of medical, prescription drug, dental and vision coverage for every 2 years of service with the school, up to a maximum of 7 years. Retiree will provide payment equal to the premium determined for the purpose of COBRA for dental and vision coverage. For medical and prescription drug premiums, the Retiree must pay the greater of the PSERS Supplement or the active employee cost share amount. Upon the expiration of the subsidy, if the Retiree qualifies for Act 110/43, the Retiree may continue coverage by providing payment equal to the premium determined for the purpose of COBRA until Medicare age. If the Retiree does not qualify for Act 110/43 upon the expiration of the subsidy, the Retiree cannot continue coverage. If a retiree does not qualify for the Charter School subsidy but qualifies for Act 110/43, the Retiree may continue coverage until Medicare age by paying the COBRA premium.</p> <p><u>Dependents</u> Spouse and Family included</p>	<p>Member coverage is provided until the later of a) the expiration of the Charter School's subsidy or b) Member Medicare age.</p> <p>Spousal coverage is provided until the later of a) expiration of the Charter School's subsidy or b) earlier of Member Medicare age or Spouse Medicare age.</p> <p>Life insurance is provided until the member age 65.</p>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - CHARTER SCHOOL OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Benefits Provided - continued

Project Staffing

<i>ELIGIBILITY</i>	<i>COVERAGE AND PREMIUM SHARING</i>	<i>DURATION</i>
Act 110/43 requirements or 20 years of service with 21CCCS	Act 110/43	Act 110/43

Act 110/43 Eligibility: All employees are eligible for this benefit upon retirement with 30 years of PSERS service or upon superannuation retirement.

Act 110/43 Coverage and Premium Sharing: Retired employees are allowed to continue coverage for themselves and their dependents in the employer's group health plan until the retired employee reaches Medicare age. In order to obtain coverage, retired employees must provide payment equal to the premium determined for the purpose of COBRA.

PSERS Supplement: A retiree may receive a \$100 monthly medical reimbursement from PSERS if he or she meets one of the following qualifications at retirement:

- 1) 24.5 years of PSERS service.
- 2) Upon superannuation retirement with at least 15 years of PSERS service.

PSERS Retirement:

- 3) For individuals who are members of PSERS prior to July 1, 2011, an employee is eligible for PSERS retirement if he or she is eligible for either: a) PSERS early retirement with under 62 with 5 years of PSERS service or b) PSERS superannuation retirement upon reaching age 60 with 30 years of PSERS service, age 62 with 1 year of PSERS service or 35 years of PSERS service regardless of age.
- 4) For individuals who became members of PSERS on or after July 1, 2011, an employee is eligible for PSERS retirement if he or she is eligible for either: a) PSERS early retirement while under 65 with 10 years of PSERS service, or b) PSERS superannuation retirement upon reaching age 65 with 3 years of PSERS service or upon attainment of a total combination of age plus service equal to or greater than 92 with a minimum of 35 years of PSERS service.
- 5) All individuals are eligible for a special early retirement upon reaching age 55 with 25 years of PSERS service.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - CHARTER SCHOOL OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

General Information About the OPEB Plan - continued

Employees Covered by Benefit Terms

At July 1, 2016, the date of the most recent actuary valuation, the following employees were covered by the benefit terms:

Active participants	84
Vested former participants	-
Retired participants	-
	<hr/>
Total	<u>84</u>

Actuarial Assumptions and Other Inputs

The total OPEB obligation as of July 1, 2017 was determined by rolling forward the Charter School's total OPEB obligation as of July 1, 2016 to July 1, 2017 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method - Entry Age Normal.
- Salary increases - 2.50% cost of living adjustment, 1% real wage growth, and for teachers and administrators a merit increase which varies by age from 2.75% to 0%.
- Discount rate - 3.13% - based on the Standards & Poors Municipal Bond 20 Year High Grade Rate Index at 7/1/17.
- Mortality rates - Separate rates are assumed preretirement and postretirement using the rates assumed in the PSERS defined benefit pension plan actuarial valuation. Incorporated into the table are rates projected generationally by the Buck Modified 2016 projection scale to reflect mortality improvement.
- Healthcare cost trend rates - 6.0% in 2017, and 5.5% in 2018 through 2023. Rates gradually decrease from 5.4% in 2024 to 3.9% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model.
- Participation rates - 100% of administrators and 40% of project staff are assumed to elect coverage.

The actuarial assumptions were selected using input from the Charter School based on actual experience.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - CHARTER SCHOOL OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in the Total OPEB Liability

	<u>Total OPEB Obligation</u>
Balance at July 1, 2017	<u>\$ 304,808</u>
Changes for the year:	
Service cost	87,681
Interest	9,773
Changes of assumptions or other inputs	<u>16,559</u>
Net changes	<u>114,013</u>
Balance at June 30, 2018	<u><u>\$ 418,821</u></u>

Changes of assumptions or other inputs reflect the following changes: (1) the discount rate changed from 2.49% to 3.13%; (2) the trend assumption was updated; (3) assumptions for salary, mortality, withdrawal, and retirement were updated based on new PSERS assumptions.

Sensitivity of the Total OPEB Obligation to Changes in the Discount Rate

The following presents the total OPEB obligation of the Charter School, as well as what the Charter School's total OPEB obligation would be if it were calculated using a discount rate that is one-percentage-point lower (2.13%) or one-percentage-point higher (4.13%) than the current discount rate:

	<u>1% Decrease 2.13%</u>	<u>Current Discount Rate 3.13%</u>	<u>1% Increase 4.13%</u>
OPEB Plan - Total OPEB Obligation	\$ 473,076	\$ 418,821	\$ 369,876

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - CHARTER SCHOOL OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

Changes in the Total OPEB Liability - continued

Sensitivity of the Total OPEB Obligation to Changes in the Healthcare Cost Trend Rates

The following presents total OPEB obligation of the Charter School, as well as what the Charter School's total OPEB obligation would be if it were calculated using healthcare cost trend rates that are one-percentage-point lower or one-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
OPEB Plan - Total OPEB Obligation	\$ 339,923	\$ 418,821	\$ 518,266

At June 30, 2018, the Charter School reported an OPEB obligation of \$418,821 related to the OPEB Plan. The OPEB obligation was measured as of July 1, 2017, and was determined by rolling forward an actuarial valuation performed as of July 1, 2016 to July 1, 2017. The liability will be liquidated through future payments from the general fund.

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

For the year ended June 30, 2018, the Charter School recognized OPEB expense of \$98,207. At June 30, 2018, the Charter School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 15,806	\$ -
Benefit payments made subsequent to the measurement date	7,737	-
	<u>\$ 23,543</u>	<u>\$ -</u>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 9 - CHARTER SCHOOL OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

Employee Defined Benefit Other Postemployment Benefits Plan - continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - continued

The \$7,737 reported as deferred outflows of resources related to OPEB liabilities resulting from benefit payments made subsequent to the measurement date will be recognized as a reduction of the OPEB obligation in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the years ending June 30:

2019	\$	753
2020		753
2021		753
2022		753
2023		753
Thereafter		<u>12,041</u>
Total	\$	<u><u>15,806</u></u>

NOTE 10 - RISK MANAGEMENT

The Charter School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs except for unemployment compensation, for which the Charter School retains risk of loss. For insured programs, there were no significant reductions in insurance coverages for the 2017/2018 school year. Settlement amounts have not exceeded insurance coverage for the current year.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 11 - COMMITMENTS

Effective December 1, 2016, the Charter School entered into a lease agreement for the rental of classroom and office space for a term of five years. Minimum future rental payments under the operating lease for the years ending June 30 are as follows:

2019	\$ 141,964
2020	144,286
2021	146,654
2022	<u>76,614</u>
Total minimum future rental payments	<u>\$ 509,518</u>

Rent expense for the year ended June 30, 2018, approximated \$149,000.

NOTE 12 - RESTATEMENT OF BEGINNING NET POSITION

Restatement of Beginning Net Position

Effective July 1, 2017, the Charter School adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, to be in conformity with generally accepted accounting principles.

Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures in order to improve accounting and financial reporting by governments for other postemployment benefit plans. The statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to actuarial present value, and attribute that present value to periods of employee service. The statement also enhances note disclosure and required supplementary information for these plans.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 12 - RESTATEMENT OF BEGINNING NET POSITION - CONTINUED

Restatement of Beginning Net Position - continued

The adoption of this standard resulted in the Charter School restating beginning net position as of July 1, 2017 as follows:

	<u>Governmental Activities</u>
Net Position (Deficit) at June 30, 2017	\$ (3,149,055)
Restatement for:	
Deferred Outflow - HIPAP contributions made subsequent to the measurement date	43,243
Other postemployment benefit obligation - HIPAP	(674,000)
Other postemployment benefit obligation - Charter School Plan	<u>37,510</u>
Net Position (Deficit) at July 1, 2017 - restated	<u>\$ (3,742,302)</u>

NOTE 13 - FUND BALANCE

Details of the Charter School's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2018, were as follows:

Nonspendable:	
Prepaid Expenditures	\$ 132,143
Committed:	
Future Building Fund	3,500,000
Future Capital Equipment Costs	327,453
New Initiatives Fund	177,857
Future Program Stabilization Fund	1,000,000
Assigned:	
PSERS Retirement Rate Increases	35,000
Health Insurance Rate Increases	31,697
Unassigned	<u>62,302</u>
Total Fund Balances	<u>\$ 5,266,452</u>

The commitments and assignments were authorized by the board of directors' motion to set aside resources to fund the commitments noted above.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 14 - NEW ACCOUNTING PRONOUNCEMENTS

- Statement No. 87, *Leases* - This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This statement is effective for the Charter School's fiscal year ending June 30, 2021.
- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, have been issued to enhance reporting and disclosures for specific debt transactions. Statement No. 88 is effective for the Charter School's fiscal year ending June 30, 2019.

The Charter School has not yet completed the analysis necessary to determine the actual financial statement impact of these new pronouncements.

REQUIRED SUPPLEMENTARY INFORMATION

21st CENTURY CYBER CHARTER SCHOOL

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Local Sources	\$ 16,131,751	\$ 16,131,751	\$ 14,890,224	\$ (1,241,527)
State Sources	<u>40,746</u>	<u>40,746</u>	<u>41,774</u>	<u>1,028</u>
TOTAL REVENUES	16,172,497	16,172,497	14,931,998	(1,240,499)
EXPENDITURES				
INSTRUCTIONAL SERVICES:				
Regular Programs - Elementary/Secondary	6,530,746	6,520,746	5,416,703	1,104,043
Special Programs - Elementary/Secondary	1,571,221	1,571,221	1,322,422	248,799
Other Instructional Programs - Elementary/Secondary	<u>193,093</u>	<u>193,093</u>	<u>168,352</u>	<u>24,741</u>
TOTAL INSTRUCTIONAL SERVICES	<u>8,295,060</u>	<u>8,285,060</u>	<u>6,907,477</u>	<u>1,377,583</u>
SUPPORT SERVICES:				
Students	738,212	743,972	673,783	70,189
Instructional Staff	1,562,405	1,572,405	1,773,691	(201,286)
Administration	2,122,983	2,129,483	1,897,268	232,215
Pupil Health	101,260	101,259	95,010	6,249
Business Services	390,955	373,955	488,068	(114,113)
Operation and Maintenance of Plant Services	1,075,783	1,063,966	810,732	253,234
Central	<u>1,722,238</u>	<u>1,722,238</u>	<u>1,827,601</u>	<u>(105,363)</u>
TOTAL SUPPORT SERVICES	<u>7,713,836</u>	<u>7,707,278</u>	<u>7,566,153</u>	<u>141,125</u>
OPERATION OF NONINSTRUCTIONAL SERVICES:				
Student Activities	104,655	104,655	85,046	19,609
CAPITAL OUTLAY	<u>-</u>	<u>16,558</u>	<u>29,758</u>	<u>(13,200)</u>
TOTAL EXPENDITURES	<u>16,113,551</u>	<u>16,113,551</u>	<u>14,588,434</u>	<u>1,525,117</u>
EXCESS OF REVENUES OVER EXPENDITURES	58,946	58,946	343,564	284,618
OTHER FINANCING USES				
Budgetary Reserve	<u>(58,946)</u>	<u>(58,946)</u>	<u>-</u>	<u>58,946</u>
TOTAL OTHER FINANCING USES	<u>(58,946)</u>	<u>(58,946)</u>	<u>-</u>	<u>58,946</u>
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	343,564	<u>\$ 343,564</u>
FUND BALANCE - BEGINNING OF YEAR			<u>4,922,888</u>	
FUND BALANCE - END OF YEAR			<u>\$ 5,266,452</u>	

See note to required supplementary information.

21ST CENTURY CYBER CHARTER SCHOOL

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

BUDGETARY DATA

The budget for the general fund is adopted on the modified accrual basis of accounting which is consistent with generally accepted accounting principles.

21st CENTURY CYBER CHARTER SCHOOL

**SCHEDULE OF THE CHARTER SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND RELATED RATIOS - PENSION PLAN**

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014
Charter School's proportion of the collective net pension liability	0.0388%	0.0313%	0.0296%	0.0309%	0.0279%
Charter School's proportionate share of the collective net pension liability	\$ 19,163,000	\$ 15,511,000	\$ 12,822,000	\$ 12,230,000	\$ 11,422,000
Charter School's covered employee payroll	\$ 5,170,698	\$ 4,059,874	\$ 3,803,141	\$ 3,937,654	\$ 3,580,336
Charter School's proportionate share of the net pension liability as a percentage of its covered employee payroll	370.61%	382.06%	337.14%	310.59%	319.02%
Plan fiduciary net position as a percentage of the total pension liability	51.84%	50.14%	54.36%	57.24%	54.50%

The Charter School's covered employee payroll noted above is as of the measurement date of the net pension liability (June 30, 2017, 2016, 2015, 2014, and 2013).

NOTES TO SCHEDULE

Changes of Benefit Terms

With the passage of Act 5 Class T-E and T-F members are now permitted to elect a lump-sum payment of member contributions upon retirement.

Change of Assumptions

None.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

21st CENTURY CYBER CHARTER SCHOOL

SCHEDULE OF CHARTER SCHOOL CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 2,042,783	\$ 1,521,325	\$ 1,040,962	\$ 824,109	\$ 630,616	\$ 410,841	\$ 270,256	\$ 142,715	\$ 100,153	\$ 82,182
Contributions in relation to the contractually required contribution	<u>2,042,783</u>	<u>1,521,325</u>	<u>1,040,962</u>	<u>824,109</u>	<u>630,616</u>	<u>410,841</u>	<u>270,256</u>	<u>142,715</u>	<u>100,153</u>	<u>82,182</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Charter School's covered employee payroll	\$ 6,386,378	\$ 5,170,698	\$ 4,059,874	\$ 3,803,141	\$ 3,937,654	\$ 3,580,336				
Contributions as a percentage of covered employee payroll	31.99%	29.42%	25.64%	21.67%	16.02%	11.47%				

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

21ST CENTURY CYBER CHARTER SCHOOL

**SCHEDULE OF THE CHARTER SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB OBLIGATION AND RELATED RATIOS -
HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM (HIPAP)**

LAST TEN FISCAL YEARS

	2018	2017
Charter School's proportion of the collective HIPAP obligation	0.0388%	0.0313%
Charter School's proportionate share of the collective net HIPAP obligation	\$ 791,000	\$ 674,000
Charter School's covered employee payroll	\$ 5,170,698	\$ 4,059,874
Charter School's proportionate share of the net HIPAP obligation as a percentage of its covered employee payroll	15.30%	16.60%
Plan fiduciary net position as a percentage of the total HIPAP obligation	5.73%	5.47%

The Charter School's covered employee payroll noted above is as of the measurement date of the net HIPAP obligation (June 30, 2017 and 2016).

NOTES TO SCHEDULE

Changes of Benefit Terms
None.

Changes of Assumptions
Significant changes of assumptions for the June 30, 2017 measurement date are as follows:

- The discount rate changed from 2.71% to 3.13%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

21st CENTURY CYBER CHARTER SCHOOL

SCHEDULE OF CHARTER SCHOOL CONTRIBUTIONS - HEALTH INSURANCE PREMIUM ASSISTANCE PROGRAM

LAST TEN FISCAL YEARS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 53,419	\$ 43,243	\$ 34,976	\$ 36,180	\$ 36,655	\$ 30,724	\$ 21,958	\$ 18,267	\$ 19,530	\$ 15,614
Contributions in relation to the contractually required contribution	53,419	43,243	34,976	36,180	36,655	30,724	21,958	18,267	19,530	15,614
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charter School's covered employee payroll	\$ 6,386,378	\$ 5,170,698	\$ 4,059,874	\$ 3,803,141	\$ 3,937,654	\$ 3,580,336				
Contributions as a percentage of covered employee payroll	0.84%	0.84%	0.86%	0.95%	0.93%	0.86%				

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

21st CENTURY CYBER CHARTER SCHOOL

**SCHEDULE OF CHANGES OF TOTAL OPEB OBLIGATION AND RELATED RATIOS -
CHARTER SCHOOL OPEB PLAN**

LAST TEN FISCAL YEARS

	<u>2018</u>
Total OPEB Obligation:	
Service cost	\$ 87,681
Interest	9,773
Changes in assumptions	<u>16,559</u>
	Net change in total OPEB obligation 114,013
Total OPEB obligation, beginning	<u>304,808</u>
	Total OPEB obligation, ending <u>\$ 418,821</u>
Covered Employee Payroll	<u>\$ 4,834,351</u>
Total OPEB Obligation as a Percentage of Covered Employee Payroll	8.66%

NOTES TO SCHEDULE

Changes of Benefit Terms

None.

Changes of Assumptions

Significant changes in assumptions for the July 1, 2017 measurement date are as follows:

- The discount rate changed from 2.49% to 3.13%.
- The trend assumption was updated.
- Assumptions for salary, mortality, withdrawal and retirement were updated based on new PSERS assumptions.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**To the Board of Trustees
21st Century Cyber Charter School
Downingtown, Pennsylvania**

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 and each major fund of the 21st Century Cyber Charter School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 21st Century Cyber Charter School's basic financial statements and have issued our report thereon dated November 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 21st Century 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 the 21st Century Cyber Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 21st Century 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 21st Century 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.

Herbein + Company, Inc.

Reading, Pennsylvania
November 13, 2018