



21st CENTURY CYBER CHARTER SCHOOL

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2016



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of 21st Century Cyber Charter School, as of and for the year ended June 30, 2016, 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 above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of 21st Century Cyber Charter School, as of June 30, 2016, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the general fund, pension, and other postemployment benefit information on pages 40 through 43 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 15, 2016, on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
November 15, 2016**



21ST CENTURY CYBER CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplementary Information

June 30, 2016

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, 2016. 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.

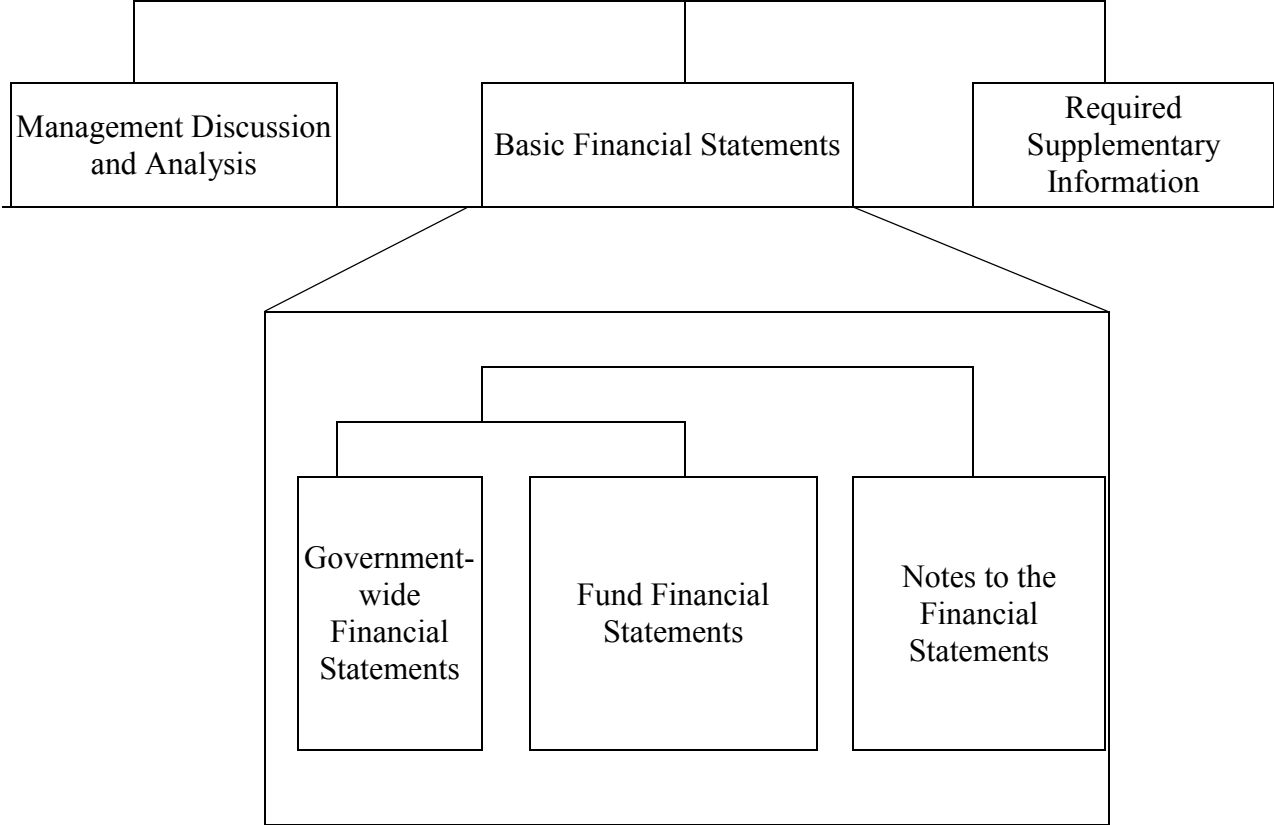
FINANCIAL HIGHLIGHTS

The 21st Century Cyber Charter School's financial results for the 2015-2016 school year resulted in a total net position of \$(3,269,436) and a Governmental Fund balance of \$4,612,048 at June 30, 2016. The June 30, 2014-2015 net position was \$(4,414,692) and fund balance was \$3,295,313.

Governmental fund total assets at June 30, 2016 were \$5,362,695 compared to the June 30, 2015 balance of \$4,119,467.

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.

**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 \$(3,269,436) as of June 30, 2016.

Figure 3		
Condensed Statement of Net Position		
June 30, 2016		
	Governmental Activities	
	2015	2016
Current and other assets	\$ 4,119,467	\$ 5,362,695
Capital Assets	<u>\$ 3,850,245</u>	<u>\$ 3,955,074</u>
Total Assets	\$ 7,969,712	\$ 9,317,769
Deferred Outflows of Resources	\$ 951,766	\$ 1,848,792
Current and other liabilities	\$ 824,154	\$ 750,647
Long-term liabilities	<u>\$ 12,512,016</u>	<u>\$ 13,165,350</u>
Total Liabilities	\$ 13,336,170	\$ 13,915,997
Deferred Inflows of Resources	\$ 0	\$ 520,000
Net Investment in Capital Assets Unrestricted	<u>\$ 3,850,245</u> <u>\$ (8,264,937)</u>	<u>\$ 3,955,074</u> <u>\$ (7,224,510)</u>
Total Net Position	\$ (4,414,692)	\$ (3,269,436)

Current assets at June 30, 2016 included cash of \$4,206,109, intergovernmental and other receivables of \$1,007,637, and prepaid expenses of \$148,649. The Charter School completed a warehouse shelving project and improvements to the outside, which resulted in an additional \$104,829 in net capital assets.

Total liabilities increased in 2015-2016. Accounts payable balances were \$69,193, compared to the prior year balance of \$106,212. The decrease of \$37,019 is the product of limiting spending at the conclusion of the 2015-2016 fiscal year resulting in less invoices to be paid subsequent to year end. Accrued salaries and benefits decreased from \$710,543 at June 30, 2015 to \$638,205 at June 30, 2016, a result of a one month prepayment for health insurance. The compensated absences accrual, which reflects the value of unused vacation time increased from \$58,146 to \$76,862 (which reflects the long-term portion) as of June 30, 2016. The long-term liability related to GASB 45 – Accounting for Other Postemployment Benefits increased by \$42,618 to \$266,488 at the end of 2015-2016 school year. The largest increase in liabilities was the Charter School's proportionate share of the net pension liability, which increased \$592,000 from the prior year totaling \$12,822,000 at June 30, 2016.

Figure 4
Condensed Statement of Activities

June 30, 2016

	Governmental Activities	
	2015	2016
Revenues		
Program Revenues		
Charges for services	\$ 9,513,467	\$ 10,573,532
Operating grants and contributions	\$ 112,762	\$ 117,956
Capital grants and contributions	\$ 0	\$ 0
Investment Earnings	<u>\$ 4,610</u>	<u>\$ 7,124</u>
Total Revenues	\$ 9,630,839	\$ 10,691,488
Expenses		
Instruction - Regular Programs	\$ 4,252,174	\$ 4,150,596
Instruction - Special Programs	\$ 879,546	\$ 1,059,874
Instruction - Other Programs	\$ 114,188	\$ 95,910
Support Services	\$ 3,764,508	\$ 4,187,406
Noninstructional Services	\$ 53,208	\$ 59,570
Interest on Long-Term Debt	<u>\$ 41,173</u>	<u>\$ 0</u>
Total Expenses	\$ 9,104,797	\$ 9,553,356
Increase (Decrease) in Net Position	\$ 526,042	\$ 1,145,256
Beginning Net Position	\$ (4,940,734)	\$ (4,414,692)
Ending Net Position	\$ (4,414,692)	\$ (3,269,436)

Figure 5
Net Cost of Governmental Activities

June 30, 2016				
	Total Cost		Net Cost	
	2015	2016	2015	2016
Instruction - Regular Programs	\$ 4,252,174	\$ 4,150,596	\$ 101,025	\$ 334,378
Instruction - Special Programs	\$ 879,546	\$ 1,059,874	\$ 139,286	\$ 181,661
Instruction - Other Programs	\$ 114,188	\$ 95,910	\$ 6,478	\$ 6,780
Support Services	\$ 3,764,508	\$ 4,187,406	\$ 308,473	\$ 601,344
Noninstructional Services	\$ 53,208	\$ 59,570	\$ 7,343	\$ 13,969
Other	\$ 41,173	\$ 0	\$ (41,173)	\$ 0
Total Expenses	\$ 9,104,797	\$ 9,553,356	\$ 521,432	\$ 1,138,132

Increased enrollment in the Charter School generated additional tuition revenue of \$1,060,065 in 2015-2016 compared to the prior school year.

Total expenses in 2015-2016 were approximately \$448,559 higher than in 2014-2015. The increase in operating expenses can be explained by increases in health insurance and PSERS costs and increased staffing due to increased enrollment. Another factor influencing this outcome is the increase in Special Education expenses for direct services to students and legal expenses.

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 99.9% accurate. Out of a \$10,703,662 budget \$10,698,612 was collected for a difference of \$5,050.

The expenditure budget came in under budget by \$1,270,693. Some of the reasons for this are: A number of administrators left at the beginning of the school year and their positions were not filled, some other budgeted positions were not filled, health insurance was budgeted at 27% and came in at 17% and computer replacement was shifted to a four year rotation instead of three years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Charter School had \$ 3,955,074 invested in building improvements, furniture and computer equipment, net of depreciation.

Figure 6		
Capital Assets (net of depreciation)		
June 30, 2016		
	Governmental Activities	
	2015	2016
Building Improvements	\$ 3,598,960	\$ 3,536,804
Furniture & Computer Equipment	<u>\$ 251,285</u>	<u>\$ 418,270</u>
Total	\$ 3,850,245	\$ 3,955,074

Debt Administration

The 21st Century Cyber Charter School had no debt for 126 Wallace Avenue building renovations as of June 30, 2016.

ECONOMIC FACTORS AND THE CHARTER SCHOOL'S FUTURE

The 21st Century Cyber Charter School increased its teaching staff to from thirty-nine in 2014-2015 to forty-four in 2015-2016 as a direct result of a 15% 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 sixty-six in 2014-2015 to seventy-four in 2015-2016. The 12% increase in staff almost exactly mirrored the 15% increase in enrollment. This 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.

The 2015-2016 school year is the last year of the charter. A charter renewal for 2016-2017 to 2020-2021 was approved by the Board of Trustees and submitted to the Pennsylvania Department of Education in September of 2015. As of this writing a site visit for this renewal is scheduled for early November 2016. A charter amendment was approved on October 26, 2016 to establish a satellite site in Murrysville, PA.

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 2012-2013 21CCCS scored a 66.5 on the SPP, 66.0 in 2013-2014 and 69.2 in 2014-2015. The 2015-2016 SPP score is 62.1. The shift on the standardized tests to the core standards has raised a challenge to the school. New classes have been developed to adhere to the standards. Increased scores are contemplated for 2016-2017.

The Pennsylvania School Employees Retirement System (PSERS) retirement rate for 2015-16 was 25.84% of qualified wages. The 2015-2016 rate is an increase over the 2014-2015 PSERS rate of 21.4%. The employer contribution rate for fiscal year 2016-2017 and 2017-18 will be 30.03% and 32.04% respectively. This rate was determined by PSERS' actuary and is subject to certification by the PSERS Board of Trustees.

PSERS has developed tentative projections for the employer contribution rate for future years that range from 30.30% to 34.18%. These tentative projections are based on the actual investment returns and potential actuarial experience losses for the 2015-2016 fiscal year and will have a significant impact on future operations. The school is exploring an option provided to Charter Schools to "opt out" of PSERS and implement a 403B style plan. This is a potential cost savings measure.

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, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 4,206,109
Intergovernmental Receivables	1,007,937
Prepaid Expenses	148,649
Capital Assets, Net of Accumulated Depreciation:	
Building and Building Improvements	3,536,804
Furniture and Computer Equipment	<u>418,270</u>
TOTAL ASSETS	<u>9,317,769</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources for Pension	807,830
Pension Contributions Made Subsequent to the Measurement Date	<u>1,040,962</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,848,792</u>
LIABILITIES	
Accounts Payable	69,193
Accrued Salaries and Benefits	638,205
Unearned Revenues	43,249
Noncurrent Liabilities:	
Long-Term Portion of Compensated Absences	76,862
Net Pension Liability	12,822,000
Other Postemployment Benefit Obligation	<u>266,488</u>
TOTAL LIABILITIES	<u>13,915,997</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources for Pension	<u>520,000</u>
NET POSITION	
Net Investment in Capital Assets	3,955,074
Unrestricted (Deficit)	<u>(7,224,510)</u>
TOTAL NET POSITION (DEFICIT)	<u><u>\$ (3,269,436)</u></u>

See accompanying notes.

21st CENTURY CYBER CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

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	\$ 4,150,596	\$ 4,459,228	\$ 25,746	\$ 334,378
Special	1,059,874	1,163,722	77,813	181,661
Other Instructional Programs	95,910	102,690	-	6,780
Total Instructional Services	<u>5,306,380</u>	<u>5,725,640</u>	<u>103,559</u>	<u>522,819</u>
Support Services:				
Pupil Personnel	455,690	490,156	-	34,466
Instructional Staff	497,368	571,384	-	74,016
Administration	1,663,416	1,849,594	-	186,178
Pupil Health	70,086	79,848	14,397	24,159
Business Services	306,823	295,799	-	(11,024)
Operation & Maintenance of Plant Services	394,985	434,895	-	39,910
Central	799,038	1,052,677	-	253,639
Total Support Services	<u>4,187,406</u>	<u>4,774,353</u>	<u>14,397</u>	<u>601,344</u>
Noninstructional Services:				
Student Activities	59,570	73,539	-	13,969
Total Noninstructional Services	<u>59,570</u>	<u>73,539</u>	<u>-</u>	<u>13,969</u>
Total Governmental Activities	<u>\$ 9,553,356</u>	<u>\$ 10,573,532</u>	<u>\$ 117,956</u>	1,138,132
General Revenues:				
Investment Earnings				<u>7,124</u>
Change in Net Position				1,145,256
Net Position (Deficit) - Beginning of year				<u>(4,414,692)</u>
Net Position (Deficit) - End of year				<u>\$ (3,269,436)</u>

21st CENTURY CYBER CHARTER SCHOOL

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2016

	General Fund
	<u> </u>
ASSETS	
Cash	\$ 4,206,109
Intergovernmental Receivables	1,007,937
Prepaid Expenditures	<u>148,649</u>
TOTAL ASSETS	<u><u>\$ 5,362,695</u></u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 69,193
Accrued Salaries and Benefits	638,205
Unearned Revenues	<u>43,249</u>
TOTAL LIABILITIES	750,647
 FUND BALANCES	
Nonspendable Fund Balance:	
Prepaid Expenditures	148,649
Committed Fund Balance:	
Future Building Fund	1,682,221
Future Capital Equipment/Software/Furniture Purchases	327,453
Future Curriculum Development Costs	44,000
New Initiatives Fund	900,000
Future Program Stabilization Fund	1,000,000
Assigned Fund Balances:	
PSERS Retirement Rate Increases	200,000
Health Insurance Rate Increases	310,371
Unassigned Fund Balance	<u>(646)</u>
TOTAL FUND BALANCES	<u><u>4,612,048</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 5,362,695</u></u>

21st CENTURY CYBER CHARTER SCHOOL

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

June 30, 2016

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

TOTAL FUND BALANCES - GOVERNMENTAL FUND	\$ 4,612,048
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 \$4,742,924 and the accumulated depreciation is \$787,850.	3,955,074
The net pension and other postemployment benefit obligations are not reflected on the fund financial statements.	(13,088,488)
Deferred outflows and inflows of resources for pensions are recorded and amortized in the statement of net position.	1,328,792
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>(76,862)</u>
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	<u><u>\$ (3,269,436)</u></u>

21st CENTURY CYBER CHARTER SCHOOL

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

For the Year Ended June 30, 2016

	<u>General Fund</u>
REVENUES	
Local Sources	\$ 10,658,469
State Sources	<u>40,143</u>
TOTAL REVENUES	10,698,612
EXPENDITURES	
Current:	
Instructional Services	5,036,759
Support Services	4,182,621
Noninstructional Services	61,615
Capital Outlay	<u>100,882</u>
TOTAL EXPENDITURES	<u>9,381,877</u>
EXCESS OF REVENUES OVER EXPENDITURES	1,316,735
FUND BALANCE - BEGINNING OF YEAR	<u>3,295,313</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 4,612,048</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, 2016

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

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND		\$	1,316,735
<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	\$	299,528	
Less: Depreciation Expense		(194,381)	
Less: Loss on Disposal		<u>(318)</u>	104,829
<p>In the statement of activities, certain operating expenses - compensated absences are measured by the amounts earned during the year.</p>			
			(18,716)
<p>The change in net pension liability and other postemployment benefit obligation and related deferred outflows and inflows of resources are reflected as an adjustment to expense on the statement of activities, but not included in the fund statements.</p>			
			<u>(257,592)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		\$	<u>1,145,256</u>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

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 expires June 30, 2017.

The Charter School is located in Exton, 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 county, and three parent members.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include only statements of the Charter School.

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. The criteria used by the Charter School for inclusion are financial accountability and the nature and significance of the relationships. In determining financial accountability in a given case, the Charter School reviews the applicability of the following criteria. The Charter School is financially accountable for:

- Organizations that make up the legal Charter School entity.
- Legally separate organizations if Charter School officials appoint a voting majority of the organizations' governing body and the Charter School is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Charter School as defined below.

Impose its will - If the Charter School can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization.

Financial benefit or burden - Exists if the Charter School (1) is entitled to the organization's resources; (2) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide support to, the organization; or (3) is obligated in some manner for the debt of the organization.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

- Organizations that are fiscally dependent on the Charter School. Fiscal dependency is established if the organization is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the Charter School.

Based on the foregoing criteria, the 21st Century Cyber Charter School has determined it has no component units.

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.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements - continued

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.

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. 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.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 2015-2016 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.

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance

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.

Investments are valued 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.

2. Receivables

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

3. 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.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

4. 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.

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 (expense/expenditure) until then. The Charter School has two items that qualify for reporting in this category, which are a deferred pension contribution and deferred outflows of resources for pension reported in the government-wide statement of net position. A deferred pension contribution results from 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. 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 five-year period or the average remaining service life of all employees, depending on what gave rise to the deferred outflow.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

5. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of financial 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 one item that qualifies for reporting in this category. This item, deferred inflows 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 five-year period or the average remaining service life of all employees depending on what gave rise to the deferred inflow.

6. Unearned Revenues

Revenues that are received but not earned are reported as unearned revenues in the government-wide, governmental, and proprietary funds 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.

7. 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.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position/Fund Balance - continued

8. 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 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.

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.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues/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.

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 percent of their per diem rate, up to a maximum of \$7,500.

H. Other 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.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

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, 2016, 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, 2016. 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.

NOTE 3 - CASH

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.

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, 2016, the carrying amount of the Charter School's deposits was \$4,206,109 and the bank balance was \$4,377,057. Of the bank balance, \$250,000 was covered by federal depository insurance and \$4,127,057 of the Charter School's bank balance was exposed to custodial credit risk but covered by collateralization requirements in accordance with Act 72.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

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 \$1,007,937 as of June 30, 2016.

NOTE 5 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2016 was 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	\$ -	\$ 100,882	\$ (100,882)	\$ -
Capital Assets Being Depreciated:				
Building and Building Improvements	3,674,868	11,825	-	3,686,693
Furniture and Computer Equipment	772,034	186,821	97,376	1,056,231
Total Assets Being Depreciated	<u>4,446,902</u>	<u>198,646</u>	<u>97,376</u>	<u>4,742,924</u>
Less Accumulated Depreciation For:				
Building and Building Improvements	75,908	73,981	-	149,889
Furniture and Computer Equipment	520,749	120,400	(3,188)	637,961
Total Accumulated Depreciation	<u>596,657</u>	<u>194,381</u>	<u>(3,188)</u>	<u>787,850</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	<u>\$ 3,850,245</u>	<u>\$ 393,027</u>	<u>\$ 94,188</u>	<u>\$ 3,955,074</u>
GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET	<u>\$ 3,850,245</u>	<u>\$ 105,147</u>	<u>\$ (318)</u>	<u>\$ 3,955,074</u>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

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	\$	81,224
Special Education		21,197
Other Instruction		1,871
Support Services:		
Pupil Personnel		8,928
Instructional Staff		10,408
Administration		33,384
Pupil Health		1,454
Business Services		5,388
Operation and Maintenance of Plant Services		10,012
Central		19,175
Noninstructional Services		<u>1,340</u>
TOTAL DEPRECIATION EXPENSE -		
GOVERNMENTAL ACTIVITIES	\$	<u><u>194,381</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, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ <u>58,146</u>	\$ <u>23,948</u>	\$ <u>5,232</u>	\$ <u>76,862</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, 2016

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 multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24 Part IV of the Pennsylvania General Assembly. 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.pfers.state.pa.us.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one 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 three 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 two percent or 2.5 percent, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to two percent or 2.5 percent, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (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 percent (Membership Class T-C) or at 6.50 percent (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 percent (Membership Class T-C) or at 7.50 percent (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 percent (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 percent (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 percent (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 percent and 9.5 percent and Membership Class T-F contribution rate to fluctuate between 10.3 percent and 12.3 percent.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

Employer Contributions:

The Charter School’s contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00 percent 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. The rate was certified by the PSERS board of trustees. Contributions to the pension plan from the Charter School were \$1,040,962 for the year ended June 30, 2016.

The Charter School is also required to contribute a percentage of covered payroll to PSERS for healthcare insurance premium assistance. For the year ended June 30, 2016, the contribution rate was 0.84 percent of covered payroll and the Charter School contributed \$34,976.

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

At June 30, 2016, the Charter School reported a liability of \$12,822,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System’s total pension liability as of June 30, 2014 to June 30, 2015. The 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, 2015, the Charter School’s proportion was 0.0296 percent, which was a decrease of 0.0013 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Charter School recognized pension expense of \$1,255,936. At June 30, 2016, 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
	<u> </u>	<u> </u>
Net difference between projected and actual investment earnings	\$ -	\$ 26,000
Difference between expected and actual experience	-	53,000
Changes in proportions - plan level	751,000	441,000
Difference between employer contributions and proportionate share of total contributions	56,830	-
Contributions subsequent to the measurement date	<u>1,040,962</u>	<u>-</u>
	<u>\$ 1,848,792</u>	<u>\$ 520,000</u>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

The \$1,040,962 reported as deferred outflows of resources resulting from Charter School pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2017	\$	70,936
2018		70,936
2019		70,937
2020		<u>75,021</u>
	\$	<u>287,830</u>

Actuarial Assumptions

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

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

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

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

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. 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, 2016

NOTE 7 - EMPLOYEE RETIREMENT PLAN - CONTINUED

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

The following presents the net pension liability, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Charter School's proportionate share of the net pension liability	\$ 15,804,000	\$ 12,822,000	\$ 10,315,000

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, 2016, the Charter School had an accrued balance due to PSERS of \$302,901. This amount represents the Charter School's contractually obligated contributions for wages earned in April 2016 through June 2016. The balance will be paid in September 2016.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The 21st Century Cyber Charter School administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Charter School's health insurance plan, which covers both active and retired members. The Retiree Health Plan does not issue a publicly available financial report.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

Funding Policy

The required contribution is based on pay-as-you-go financing. For administrators with more than 10 but less than 20 years of service with the Charter School, the retired plan member contributes the premium in excess of the flat-dollar Charter School contribution for medical insurance determined at the member's retirement for the retired plan member and their spouse. For administrators with twenty years or more with the Charter School the retired plan member must pay premiums for vision. The retired plan member must pay 50 percent of the cost of term life insurance. The premium sharing for medical insurance is limited to half of the retirees years of service and after that time the retired plan member is responsible for paying 100 percent of the premiums for medical insurance, and long-term care insurance is provided based on years of service with the Charter School paying 100 percent of the cost. Over age 65, the retiree must pay the premium in excess of the flat-dollar Charter School contribution determined at age 65. In addition, long-term care insurance is only provided for a period equal to half of the retiree's service.

Project staff are allowed to continue coverage for themselves and dependents until the member reaches Medicare age. The retiree is responsible for payment equal to the premium determined for the purposes of COBRA.

Annual OPEB Cost and Net OPEB Obligation

The Charter School's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Charter School's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Charter School's net OPEB obligation:

Annual required contribution	\$ 47,988
Interest on net OPEB obligation	10,074
Adjustment to annual required contribution	<u>(15,444)</u>
Annual OPEB cost	42,618
Contributions made (estimated)	<u>-</u>
Estimated increase in net OPEB obligation	42,618
Net OPEB obligation - beginning of year	<u>223,870</u>
Net OPEB obligation - end of year	<u>\$ 266,488</u>

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

The Charter School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2016	\$ 42,618	0.0%	\$ 266,488
6/30/2015	43,665	0.0%	223,870
6/30/2014	44,739	0.0%	180,205

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$188,943, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$188,943. The covered payroll (annual payroll of active employees covered by the plan) was \$3,814,562, and the ratio of the UAAL to the covered payroll was 4.95%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about actuarial value of plan assets and actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

21st CENTURY CYBER CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS - CONTINUED

In the July 1, 2013 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.0 percent initially, decreasing 0.5 percent per year to a rate of 5.5 percent in 2016. Rates gradually decrease from 5.3 percent in 2017 to 4.2 percent in 2089 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The unfunded actuarial accrued liability is being amortized using single period amortization as of the end of the year based on level dollar, 24-year open period. This is the weighted average of service until retirement (active liability) and payment period (retired liability).

NOTE 9 - 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 2015/2016 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, 2016

NOTE 10 - FUND BALANCES

Fund balance classifications for the general fund were as follows for the year ended June 30, 2016:

Nonspendable:		
Prepaid Expenditures	\$	148,649
Committed:		
Future Building Fund		1,682,221
Future Capital Equipment Costs		327,453
Future Curriculum Development		44,000
New Initiatives Fund		900,000
Future Program Stabilization Fund		1,000,000
Assigned:		
PSERS Retirement Rate Increases		200,000
Health Insurance Rate Increases		310,371
Unassigned		<u>(646)</u>
Total Fund Balances	\$	<u><u>4,612,048</u></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, 2016

NOTE 11 - NEW ACCOUNTING STANDARDS

The Government Accounting Standards Board (GASB) has issued the following standards which have not yet been implemented:

- Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans* - The objective of this statement is to improve the usefulness of information about other postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for the Charter School's fiscal year ending June 30, 2017.
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for the Charter School's fiscal year ending June 30, 2018.
- Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - This statement addressed certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73 related to (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions of the treatment of deviations from the guidance in Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for the Charter School's fiscal year ending June 30, 2017.

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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES				
Local Sources	\$ 10,703,662	\$ 10,703,662	\$ 10,658,469	\$ (45,193)
State Sources	-	-	40,143	40,143
TOTAL REVENUES	10,703,662	10,703,662	10,698,612	(5,050)
EXPENDITURES				
Instructional Services:				
Regular Programs	4,245,559	4,239,501	3,923,387	316,114
Special Programs	1,023,370	1,023,370	1,023,091	279
Other Instructional Programs	167,202	168,042	90,281	77,761
Total Instructional Services	5,436,131	5,430,913	5,036,759	394,154
Support Services:				
Pupil Personnel	397,888	404,272	430,923	(26,651)
Instructional Staff	457,379	457,379	502,335	(44,956)
Administration	1,445,128	1,638,169	1,611,305	26,864
Pupil Health	86,457	86,457	70,199	16,258
Business Services	598,846	458,046	260,053	197,993
Operation & Maintenance of Plant Services	693,900	693,900	382,340	311,560
Central	1,341,758	1,337,442	925,466	411,976
Total Support Services	5,021,356	5,075,665	4,182,621	893,044
Noninstructional Services:				
Student Activities	143,015	145,992	61,615	84,377
Capital Outlay	-	-	100,882	(100,882)
TOTAL EXPENDITURES	10,600,502	10,652,570	9,381,877	1,270,693
EXCESS OF REVENUES OVER EXPENDITURES	103,160	51,092	1,316,735	1,265,643
OTHER FINANCING USES				
Budgetary Reserve	(103,160)	(51,092)	-	51,092
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	1,316,735	\$ 1,316,735
FUND BALANCE - BEGINNING OF YEAR			3,295,313	
FUND BALANCE - END OF YEAR			\$ 4,612,048	

21st CENTURY CYBER CHARTER SCHOOL

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

June 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Charter School's proportion of the collective net pension liability	0.0296%	0.0309%	0.0279%
Charter School's proportionate share of the collective net pension liability	\$ 12,822,000	\$ 12,230,000	\$ 11,422,000
Charter School's covered employee payroll	\$ 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	337.14%	310.59%	319.02%
Plan fiduciary net position as a percentage of the total pension liability	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, 2015, 2014, and 2013).

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

21ST CENTURY CYBER CHARTER SCHOOL
 SCHEDULE OF CHARTER SCHOOL CONTRIBUTIONS - PENSION PLAN

	LAST 10 FISCAL YEARS									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 1,040,962	\$ 824,109	\$ 630,616	\$ 410,841	\$ 270,256	\$ 142,715	\$ 100,153	\$ 82,182	\$ 87,656	\$ 47,951
Contributions in relation to the contractually required contribution	1,040,962	824,109	630,616	410,841	270,256	142,715	100,153	82,182	87,656	47,951
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charter School's covered employee payroll	\$ 4,119,819	\$ 3,803,141	\$ 3,937,654	\$ 3,580,336						
Contributions as a percentage of covered employee payroll	25.27%	21.67%	16.02%	11.47%						

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

21st CENTURY CYBER CHARTER SCHOOL

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN

June 30, 2016

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
Governmental Activities	7/1/2013	\$ -	\$ 188,943	\$ 188,943	0.00%	\$ 3,814,562	4.95%
	7/1/2010	-	99,374	99,374	0.00%	2,337,687	4.25%
	7/1/2007	-	27,679	27,679	0.00%	1,451,354	1.91%

21st CENTURY CYBER CHARTER SCHOOL

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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.



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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
Exton, Pennsylvania**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of 21st Century Cyber Charter School, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise 21st Century Cyber Charter School's basic financial statements and have issued our report thereon dated November 15, 2016.

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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2016-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 21st Century Cyber Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2016-001.

21st Century Cyber Charter School's Response to Findings

21st Century Cyber Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 21st Century Cyber Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 15, 2016**

21ST CENTURY CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2016

2016-001 EMPLOYEE CLEARANCES

Criteria

Pennsylvania Act 153 of 2014 took effect on December 31, 2014, requiring that employee clearances (Criminal History Record, Child Abuse Clearance, and FBI Fingerprint screening) be renewed every three years. Changes were made effective July 1, 2015 extending the renewal period to five years.

Condition

During our testing of payroll compliance, we select a sample of 30 employees and examined clearances on file. From the sample of 30, we noted 12 individuals for whom updated clearances were not obtained during the 2015-2016 year. For each individual noted, at least one clearance was more than five years old. The Charter School obtained updated clearances for these individuals in July 2016.

Cause

During the 2015-2016 year, the Charter School obtained updated FBI clearances for all employees to be in compliance with these new requirements. However, other required clearances were not updated timely to comply.

Effect

The Charter School was out of compliance with state regulations. In addition, the absence of updated clearances could pose a risk to the Charter School.

Recommendation

We recommend that the human resources coordinator review all employee files to be sure clearances are updated every five years. A control should be put in place to be sure updated clearances are requested and obtained when required. It is also important for the Charter School to designate an individual whose responsibilities would include keeping current with changes to laws and regulations that the Charter School must comply.

Management Response

The Human Resources Manager will enter the due date of every clearance into the CSIU personnel system. Every month she will pull the report of clearances due and submit it to the CEO/Business Manager for examination/approval. This report will have the employee's name, clearance due date, and action taken.