

**LINCOLN CHARTER SCHOOL
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

**LINCOLN CHARTER SCHOOL
FOR THE YEAR ENDED JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lincoln Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of Lincoln Charter School (a nonprofit organization) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Lincoln 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 major fund of Lincoln 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4 - 7 and 27 - 29, respectively, 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 Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2018, on our consideration of Lincoln 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 Lincoln Charter School's internal control over financial reporting and compliance.



CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
February 28, 2018

**LINCOLN CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The Board of Trustees of Lincoln Charter School (the "School") offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the year ended June 30, 2016. We encourage readers to consider the information presented herein in conjunction with the School's financial statements.

Financial Highlights

- Total governmental revenues for the year ended June 30, 2016, were \$8,636,354, representing a decrease of \$419,658 from the year ended June 30, 2015.
- At June 30, 2016, the School reported an ending governmental fund balance of \$2,549,494, representing an increase of \$1,234,981 from June 30, 2015.
- The School's cash balance at June 30, 2016, was \$2,277,957, representing an increase of \$1,079,404 from June 30, 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's financial statements. The School's financial statements as presented comprise four components: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) the required supplementary information, and (4) the single audit section.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the School's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., expenditures accrued in one year but paid in subsequent years, and depreciation).

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School. The School's function is to provide an alternative educational opportunity.

Fund Financial Statements

A fund is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental-type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has one fund type: the governmental general fund.

See independent auditor's report.

**LINCOLN CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Overview of the Financial Statements (Continued)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Supplementary Information

The general fund budgetary comparison schedule, the schedule of the School's proportionate share of the net pension liability and the schedule of School contributions are required supplementary information presented for purposes of additional analysis and are prepared using a basis consistent with accounting principles generally accepted in the United States of America ("GAAP") for state reporting requirements.

Single Audit Requirements

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Government-Wide Financial Analysis

	June 30,	
	2016	2015
Current assets	\$ 4,228,609	\$ 2,984,601
Capital assets	30,058	41,946
Total assets	4,258,667	3,026,547
Deferred outflows of resources	820,743	713,800
Current liabilities	1,318,977	1,454,180
Noncurrent liabilities	11,825,000	12,151,000
Total liabilities	13,143,977	13,605,180
Deferred inflows of resources	1,527,000	1,265,000
Net position:		
Net investment in capital assets	30,058	41,946
Unrestricted	(9,621,625)	(11,171,779)
Total net position	\$ (9,591,567)	\$ (11,129,833)

As noted previously, net position may serve over time as a useful indicator of a school's financial position. In the case of the School, liabilities and deferred inflows exceeded assets and deferred outflows of resources by \$9,591,567 as of June 30, 2016.

See independent auditor's report.

**LINCOLN CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Overview of the Financial Statements (Continued)

Government-Wide Financial Analysis (Continued)

The School's revenues are predominately received from the York School District based on student enrollment. For the year ended June 30, 2016, the School's revenues of \$8,636,354 exceeded its expenses of \$7,098,088 by \$1,538,266.

	<u>Year ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$ <u>2,414,499</u>	\$ <u>2,438,282</u>
General revenues:		
Grants and contributions not restricted to specific programs	6,217,620	6,597,774
Miscellaneous	<u>4,235</u>	<u>19,956</u>
Total general revenues	<u>6,221,855</u>	<u>6,617,730</u>
Total revenues	<u>8,636,354</u>	<u>9,056,012</u>
Expenses:		
Other instructional programs	4,711,687	4,966,237
Pupil personnel services	65,488	99,666
Support services	(2,464)	2,669
Administrative services	699,288	1,509,275
Pupil health	97,188	135,602
Business services	197,812	154,563
Operation and maintenance of plant services	765,643	1,106,475
Other noninstructional services	41,452	125,004
Food services	409,399	410,025
Student activities	65,720	-
Student transportation	3,363	5,231
Interest expense	31,624	20,615
Depreciation expense	<u>11,888</u>	<u>198,717</u>
Total expenses	<u>7,098,088</u>	<u>8,734,079</u>
Change in net position	1,538,266	321,933
Net position - beginning	<u>(11,129,833)</u>	<u>(11,451,766)</u>
NET POSITION - ENDING	<u>\$ (9,591,567)</u>	<u>\$ (11,129,833)</u>

Governmental Activities

The current year change in net position increased by \$1,216,333 as compared to the prior year change in net position as a result of reduced expenses, primarily related to consulting fees, due to the School terminating its relationship with its existing education and business services provider.

See independent auditor's report.

**LINCOLN CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Overview of the Financial Statements (Continued)

Governmental Fund

The focus of the School's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, the fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the year.

The general fund is the chief operating fund of the School. At the end of the current year, the unassigned fund balance of the general fund was \$2,517,868, while the total fund balance of the general fund was \$2,549,494.

General Fund Budgetary Highlights

Over the course of the year, the School revised the annual operating budget several times. These budget amendments consisted of changes made within budgetary line items for programs, supplies and equipment. There were no formal budget amendments made that were required to be submitted to the Commonwealth of Pennsylvania.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the School's net investment in capital assets for its governmental activities totaled \$30,058 (net of accumulated depreciation). This net investment in capital assets includes equipment, curriculum - textbooks and computers for the School, along with leasehold improvements.

Long-Term Debt

At June 30, 2016, the School has \$185,000 outstanding on a revolving line of credit.

Economic Factors and Next Year's Budgets and Rates

The School does not foresee any substantial variations with next year's economic factors, budgets or rates.

Future Events That Will Financially Impact the School

The School does not foresee any future events at this time that will financially impact the School.

Contacting the School's Financial Management

This financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to: Lincoln Charter School, 559 West King Street, York, PA 17401.

**LINCOLN CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 2,277,957
State subsidies receivable	174,197
Federal subsidies receivable	333,309
Local school districts receivable, net of allowance for doubtful accounts of \$57,285	1,225,437
Due from affiliate	186,083
Prepaid expenses	31,626
Capital assets:	
Computer equipment	788,783
Leasehold improvements	140,590
Curriculum - textbooks	399,125
Less: accumulated depreciation	<u>(1,298,440)</u>
Total assets	<u>4,258,667</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pension	<u>820,743</u>
LIABILITIES	
Accounts payable and accrued expenses	195,134
Accrued salary and benefits	519,933
Due to Edison Learning	274,219
Due to local school districts	144,691
Line of credit	185,000
Long-term obligations, due beyond one year:	
Pension liability	<u>11,825,000</u>
Total liabilities	<u>13,143,977</u>
Commitments and contingencies (Notes 6, 7, 8, 9, 10, 11, and 12)	
DEFERRED INFLOWS OF RESOURCES	
Related to pension	<u>1,527,000</u>
NET POSITION	
Net investment in capital assets	30,058
Unrestricted	<u>(9,621,625)</u>
Total net position	<u>\$ (9,591,567)</u>

See accompanying notes to financial statements.

**LINCOLN CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government:				
Governmental activities:				
Other instructional programs	\$ 4,711,687	\$ -	\$ 1,753,168	\$ (2,958,519)
Pupil personnel services	65,488	-	-	(65,488)
Support services	(2,464)	-	-	2,464
Administrative services	699,288	-	-	(699,288)
Pupil health	97,188	-	14,620	(82,568)
Business services	197,812	-	-	(197,812)
Operation and maintenance of plant services	765,643	-	107,518	(658,125)
Noninstructional support services	41,452	-	-	(41,452)
Student activities	65,720	-	-	(65,720)
Student transportation	3,363	-	-	(3,363)
Food service	409,399	-	539,193	129,794
Interest expense	31,624	-	-	(31,624)
Depreciation expense (Note 5)	<u>11,888</u>	<u>-</u>	<u>-</u>	<u>(11,888)</u>
Total governmental activities	<u>\$ 7,098,088</u>	<u>\$ -</u>	<u>\$ 2,414,499</u>	<u>(4,683,589)</u>
General revenues:				
Local educational agencies				6,217,620
All other revenue				<u>4,235</u>
Total general revenues				<u>6,221,855</u>
Change in net position				1,538,266
Net position - beginning				<u>(11,129,833)</u>
NET POSITION - ENDING				<u>\$ (9,591,567)</u>

See accompanying notes to financial statements.

**LINCOLN CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2016**

	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 2,277,957
State subsidies receivable	174,197
Federal subsidies receivable	333,309
Local school districts receivable	1,225,437
Other current assets	186,083
Prepaid expenses	<u>31,626</u>
TOTAL ASSETS	\$ <u>4,228,609</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities	
Accounts payable and accrued expenses	\$ 195,134
Accrued salary and benefits	1,065,071
Due to EdisonLearning	274,219
Due to local school districts	<u>144,691</u>
Total liabilities	<u>1,679,115</u>
Fund balance	
Nonspendable	31,626
Unassigned	<u>2,517,868</u>
Total fund balance	<u>2,549,494</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>4,228,609</u>

See accompanying notes to financial statements.

**LINCOLN CHARTER SCHOOL
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016**

Total fund balance for the governmental fund \$ 2,549,494

Total net position reported for governmental activities in the statement of net position is different because:

Long-term liabilities that pertain to the governmental fund, including notes payable and net pension obligations, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Those liabilities consist of:

Line of credit	(185,000)	
Net pension liability, net of required contractual liability	<u>(11,279,862)</u>	(11,464,862)

Capital assets used in the governmental fund are not financial resources and, therefore, are not reported as assets in the fund. Those assets consist of:

Computer equipment	788,783	
Leasehold improvements	140,590	
Curriculum - textbooks	399,125	
Less: accumulated depreciation	<u>(1,298,440)</u>	30,058

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental fund. Balances at year-end are:

Deferred outflows of resources related to pensions	820,743	
Deferred inflows of resources related to pensions	<u>(1,527,000)</u>	<u>(706,257)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (9,591,567)**

**LINCOLN CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND
BALANCE OF THE GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>
Revenues:	
Local educational agencies	\$ 7,280,461
Other local sources	4,236
State sources	216,764
Federal sources	<u>1,134,893</u>
Total revenues	<u>8,636,354</u>
Expenditures:	
Instruction	4,901,765
Support services	1,877,104
Noninstructional services	525,880
Debt service	<u>96,624</u>
Total expenditures	<u>7,401,373</u>
Net change in fund balance	1,234,981
Fund balance - beginning	<u>1,314,513</u>
FUND BALANCE - ENDING	\$ <u>2,549,494</u>

See accompanying notes to financial statements.

**LINCOLN CHARTER SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN THE FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Net change in fund balance - governmental fund \$ 1,234,981

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

The governmental fund reports note proceeds as financing sources, while repayment of note principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities, and repayment of principal reduces the liability. The net effect of these differences in the treatment of notes payable is as follows:

Repayment of line of credit	65,000
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The governmental fund reports capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense, as follows:

Depreciation expense	<u>(11,888)</u>	
		(11,888)

The governmental fund reports pension contributions as expenditures. However, in the statement of activities, the cost incurred for future pension benefits is reported as pension expense, as follows:

School pension contributions	(649,800)	
Cost of benefits earned net of employee contributions	<u>899,973</u>	
		<u>250,173</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,538,266

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Lincoln Charter School (the "School") is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997 (the "Act") and is operating under a charter school contract through June 30, 2020. The School is located in York, Pennsylvania. During the 2015-2016 school year, the School served children in grades kindergarten through 5.

The School has financial accountability and control over all activities related to the students' education. The School receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. The reporting entity of the School is based upon criteria set forth by Governmental Accounting Standards Board ("GASB") Statement Nos. 14, 39, and 61. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the School. The School is not a component unit of another reporting entity. The decision to include a potential component unit in the School's reporting entity is based on several criteria, including legal standing, fiscal dependency and financial accountability. The School has no component units.

Basis of Presentation

Government-wide financial statements

The statement of net position and the statement of activities display information about the School as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. The government-wide statements provide information about the primary government (the School) and its component units, if any, without displaying funds. These statements also distinguish between the *governmental* and *business-type activities*, if any, of the School and between the School and its discretely presented component units, if any. Eliminations have been made to minimize the double counting of internal activities. All of the School's activities are governmental.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School, if any, and for each function of the School's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.
- Indirect expenses are those related to the administration and support of the School's programs, such as personnel and accounting (but not interest on long-term debt) and are allocated to programs based on their percentage of total primary government expenses. Interest expenses are allocated to the programs that manage the capital assets financed with long-term debt.

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Government-wide financial statements (continued)

- Program revenues include charges paid by the recipients of goods or services offered by programs and grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue.

Fund financial statements

The fund financial statements provide information about the School's funds, including fiduciary funds and blended component units, if any. Separate statements for each fund category (*governmental, proprietary, and fiduciary*) are presented, if applicable. The emphasis of governmental and enterprise fund reporting (enterprise funds are a type of proprietary fund) is on major funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. All other funds are aggregated and reported by fund type.

The School reports the following major governmental fund:

General Fund - The general fund is the operating fund of the School and accounts for all operating revenues and expenditures of the School.

Basis of Accounting

The basis of accounting determines when transactions are reported on 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 at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt, which are recognized when due. Claims, judgments and compensated absences are recognized as expenditures only to the extent they are normally expected to be paid from existing unrestricted fund net position. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing.

Under the terms of grant agreements, the School supports certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net position is available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"), classifies net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.
- Restricted - This component of net position consists of constraints placed on the use of net assets through external constraints imposed by creditors such as through debt covenants, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or by enabling legislation.
- Unrestricted - This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance Classification Policies and Procedures

The School follows the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*, which requires the classification of the School's fund balance into five components: nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as follows:

- Nonspendable - This category is for amounts that can't be spent because they are either (1) not in spendable form or (2) legally or contractually required to remain intact.

The School's nonspendable fund balance represents prepaid expenses.

- Restricted - This category is the part of the fund balance that is restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or by enabling legislation.
- Committed - This category is the portion of the fund balance that can only be used for specific purposes as a result of formal action by the School's highest level of authority.
- Assigned - This category reflects funds that the School intends to use for a specific purpose but are not considered restricted or committed.
- Unassigned - This category represents the part of the spendable fund balance that has not been categorized as nonspendable, restricted, committed or assigned.

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classification Policies and Procedures (Continued)

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first; then unrestricted resources as they are needed for the included program.

In the fund financial statements, assignments and designations segregate portions of fund balances that are either not available or have been earmarked for specific purposes. The various reserves are established by actions of the School's Board of Trustees and management and may be increased, reduced, or eliminated by similar actions.

Budgets and Budgetary Accounting

The School adopts an annual budget on the budgetary basis, which is consistent with GAAP for the general fund. The School is required to present the adopted and final budgeted revenues and expenditures for the general fund that were filed and accepted by the Labor, Education and Community Services Comptroller's Office. The general fund budget appears on page 27.

Use of Estimates

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

Receivables

Receivables primarily consist of amounts due from federal, state and local authorities. Receivables are stated at the amount management expects to collect. The School maintains an allowance for doubtful accounts for estimated losses resulting from the inability of governments to make required payments. If the financial conditions of these local governments were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the School provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the School has made reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2016, an allowance of \$57,285 has been established.

Capital Assets

The School's capital assets are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a threshold level of \$2,500 or more for capitalizing assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are expensed. Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to 25 years.

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of net position and related disclosures. In compliance with GASB 63, the statement of net position includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Deferred outflows of resources represent a consumption of net assets that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

Deferred inflows of resources represent an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Advertising Costs

All costs associated with advertising and promotions are expensed in the year incurred and totaled \$57 for the year ended June 30, 2016.

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Uncertain Tax Positions

The School accounts for uncertainty in income taxes in which tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of June 30, 2016, the School had no uncertain tax positions that qualified for either recognition or disclosure in these financial statements. Additionally, the School had no interest or penalties related to income taxes.

Pensions

The School follows Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* ("GASB 71"). Under GASB 68 and 71, 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 (the "PSERS") and additions to/deductions from the PSERS's fiduciary net position have been determined on the same basis as they are reported by the PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, and investments are reported at fair value.

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Changes in Accounting Principles

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* ("GASB 82"), which addresses certain issues that have been raised with respect to GASB 67, *Financial Reporting for Pension Plans*, GASB 68, *Accounting and Financial Reporting for Pensions*, and GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of GASB 82 are effective for the School's June 30, 2017, financial statements. The effect of implementation is not expected to have a material impact on the School's financial statements and related disclosures.

Subsequent Events

The School has evaluated subsequent events through February 28, 2018, the date on which these financial statements were available to be issued. There were no material subsequent events, other than as disclosed in Note 6, that required recognition or additional disclosure in these financial statements.

NOTE 2. CASH

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School monitors custodial credit risk by periodically reviewing the Federal Deposit Insurance Corporation's ("FDIC") limits and published credit ratings of its depository banks. Accounts are insured by the FDIC up to \$250,000 for all accounts kept at one financial institution. Under Pennsylvania Act 72, financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits.

As of June 30, 2016, the custodial credit risk is as follows:

Uninsured and uncollateralized	\$ 2,049,047
Collateralized	-
Uninsured and collateral held by the pledging bank's trust department, not in the School's name	-
	\$ 2,049,047

Reconciliation to the financial statements:

Cash exposed to custodial risk	\$ 2,049,047
Plus: insured amount	250,000
Less: outstanding checks	(21,090)
	\$ 2,277,957

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3. RECEIVABLES

A summary of receivables is as follows:

	Amount
Federal	\$ 333,309
State	174,197
Local	1,282,722
Less: allowance for doubtful accounts	(57,285)
	\$ 1,732,943

NOTE 4. LOCAL EDUCATIONAL AGENCY ASSISTANCE (REVENUE)

The School receives funding from various school districts on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis.

For each non-special education student enrolled, charter schools receive no less than the budgeted total expenditure per average daily membership of the prior school year as defined by the Act. For the year ended June 30, 2016, the rate for most of the students was \$8,604 per year per student, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. Total revenue from student enrollment was \$7,280,461 for the year ended June 30, 2016.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Computer equipment	\$ 788,783	\$ -	\$ -	\$ 788,783
Leasehold improvements	140,590	-	-	140,590
Curriculum - textbooks	399,125	-	-	399,125
Less: accumulated depreciation	(1,286,552)	(11,888)	-	(1,298,440)
Capital assets, net	\$ 41,946	\$ (11,888)	\$ -	\$ 30,058

Depreciation expense for the year ended June 30, 2016, was \$11,888.

NOTE 6. LINE OF CREDIT

During August 2013, the School entered into a revolving line of credit agreement ("LOC") with a bank. Borrowings under the LOC are subject to a borrowing base, as defined. The outstanding principal balance, which bears interest at the prime rate plus 1.00% (4.75% at June 30, 2016), is due on demand. The outstanding balance of the LOC has subsequently been repaid in full. Availability on the LOC has expired.

NOTE 7. MANAGEMENT SERVICES AGREEMENT

The School entered into an agreement with EdisonLearning to provide an education program and manage the operations of the School. During 2016, the School terminated its relationship with EdisonLearning. The School has a balance due to EdisonLearning of \$274,219 at June 30, 2016.

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8. FACILITY LEASING ARRANGEMENT

The School leases its facility from the School District of the City of York ("SDYC") under a noncancelable operating lease that expires June 30, 2020. The lease may be extended for additional terms of five years each, provided that the School's charter contract is extended. The School is required to pay base rentals based on the annual debt service payments required by SDYC on its mortgage loan on the facility.

During the year ended June 30, 2016, rent expense for the facility was \$281,882.

Future minimum lease payments as of June 30, 2016, under the lease are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2017	\$ 282,481
2018	283,464
2019	291,287
2020	<u>292,134</u>
	<u>\$ 1,149,366</u>

NOTE 9. RETIREMENT PLAN

Plan Description

The School contributes to a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the PSERS (or "Teachers' Plan"), which provides retirement and disability benefits, legislative-mandated ad-hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The members eligible to participate in the PSERS include all full-time 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 reporting entities in the Commonwealth of Pennsylvania (the "Commonwealth"). The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 P.A.C.S. 8101-8535) (the "Code") assigns the authority to establish and amend benefit provisions to the PSERS. The PSERS issues an annual financial report that can be obtained at www.psers.state.pa.us.

Benefits Provided

The 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 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9. RETIREMENT PLAN (CONTINUED)

Benefits Provided (Continued)

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members). 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 established in the Code and requires contributions by active members, employers and the Commonwealth.

Member contributions are as follows:

- Active members who joined the PSERS prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the PSERS prior to, 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 PSERS after June 30, 2001, and before July 1, 2011, contribute at 7.50% (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 PSERS after June 30, 2011, can choose between two classes of membership and, therefore, two different base contribution rates that are subject to a limited fluctuation based on a "shared risk" provision in Act 120. Class T-E members have a base employee contribution rate of 7.50%, with shared risk contribution rate levels from 7.50% through and including 9.50%. Membership Class T-F members have a base employee contribution rate of 10.30%, with shared risk contribution rate levels from 10.30% through and including 12.30%.

With the "shared risk" program, members benefit when investments of the fund are doing well and share some of the risk when investments underperform. Class T-E or T-F contribution rates will stay within the specified range, but may increase or decrease by .5% within the specified range once every three years, starting July 1, 2015. The contribution rates for these two membership classes will never go below the base rate or above the highest percentage rate.

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9. RETIREMENT PLAN (CONTINUED)

Contributions (Continued)

The School's contractually required contribution rate for fiscal year ended June 30, 2016, was 25.84% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The School's required contributions to the PSERS for the years ended June 30, 2016, 2015, and 2014, amounted to \$899,973, \$806,461, and \$735,978, respectively.

NOTE 10. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2016, the School reported a liability of \$11,825,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 (beginning of the School's fiscal year), and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS's total pension liability as of June 30, 2014, to June 30, 2015. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the School's proportion was 0.0273%, which was a decrease of 0.0034% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$649,800. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 49,000
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	24,000
Changes in proportions	-	1,454,000
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	<u>820,743</u>	<u>-</u>
	<u>\$ 820,743</u>	<u>\$ 1,527,000</u>

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the School's year ending June 30, 2017. Deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2016	\$ (450,000)
2017	(450,000)
2018	(450,000)
2019	<u>(177,000)</u>
	<u>\$ (1,527,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2015, was determined by rolling forward the PSERS'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 % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. Rates for disabled annuitants were based on the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014, valuation were based on the experience study that was performed for the five-year period ended June 30, 2010. The recommended assumption changes based on this experience study were adopted by the PSERS's Board of Trustees 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.

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

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Actuarial Assumptions (Continued)

<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 %	6.6 %
Private real estate	12 %	4.5 %
Global fixed income	7.5 %	2.4 %
U.S. long treasuries	3 %	1.4 %
Treasury inflation-protected securities	12 %	1.1 %
High yield bonds	6 %	3.3 %
Cash	3 %	0.7 %
Absolute return	10 %	4.9 %
Risk parity	10 %	3.7 %
Master limited partnerships/Infrastructure	5 %	5.2 %
Commodities	8 %	3.1 %
Financing (LIBOR)	<u>(14)%</u>	1.1 %
	<u>100 %</u>	

The above was the PSERS's Board of Trustees 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%. 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 PSERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
The School's proportionate share of the net pension liability	\$ <u>14,576,000</u>	\$ <u>11,825,000</u>	\$ <u>9,513,000</u>

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Pension Plan Fiduciary Net Position

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

NOTE 11. GRANT CONTINGENCIES

Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

NOTE 12. LITIGATION

The School is, from time to time, involved in claims and lawsuits incidental to its operations. In the opinion of management, as of February 28, 2018, the ultimate resolution of these matters will not have an adverse effect on the financial position of the School.

REQUIRED SUPPLEMENTARY INFORMATION

**LINCOLN CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN THE FUND BALANCE
BUDGET AND ACTUAL*
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local educational agencies	\$ 7,976,055	\$ 7,976,055	\$ 7,280,461	\$ (695,594)
Other sources	395,826	395,826	4,236	(391,590)
State sources	105,805	105,805	216,764	110,959
Federal sources	<u>1,112,387</u>	<u>1,112,387</u>	<u>1,134,893</u>	<u>22,506</u>
Total revenues	<u>9,590,073</u>	<u>9,590,073</u>	<u>8,636,354</u>	<u>(953,719)</u>
Expenditures:				
Instruction	5,266,774	5,266,774	4,901,765	(365,009)
Support services	3,004,353	3,004,353	1,877,104	(1,127,249)
Noninstructional services	659,415	659,415	525,880	(133,535)
Debt service	579,027	579,027	96,624	(482,403)
Budgetary reserve	<u>50,000</u>	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>
Total expenditures	<u>9,559,569</u>	<u>9,559,569</u>	<u>7,401,373</u>	<u>(2,158,196)</u>
Net change in fund balance	30,504	30,504	1,234,981	1,204,477
Fund balance - beginning	<u>1,314,513</u>	<u>1,314,513</u>	<u>1,314,513</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,345,017</u>	<u>\$ 1,345,017</u>	<u>\$ 2,549,494</u>	<u>\$ 1,204,477</u>

***The School adopts an annual budget on the budgetary basis, which is consistent with GAAP for the governmental fund.**

**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHERS' PENSION PLAN
Last 10 Fiscal Years***

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
School's proportion of the net pension liability	0.0273 %	0.0307 %	0.0319 %
School's proportionate share of the net pension liability	\$ 11,825,000	\$ 12,151,000	\$ 13,509,000
School's covered-employee payroll	\$ 3,514,964	\$ 3,920,004	\$ 4,091,495
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.42 %	309.97 %	330.17 %
Plan fiduciary net position as a percentage of the total pension liability	54.36 %	57.24 %	54.49 %

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

**LINCOLN CHARTER SCHOOL
SCHEDULE OF SCHOOL CONTRIBUTIONS
TEACHERS' PENSION PLAN
Last 10 Fiscal Years***

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
School's contractually required contribution	\$ 899,973	\$ 806,461	\$ 735,978
School's contributions in relation to the contractually required contribution	<u>354,835</u>	<u>806,461</u>	<u>735,978</u>
Contribution deficiency	<u>\$ 545,138</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 3,514,964	\$ 3,920,004	\$ 4,091,495
Contributions as a percentage of covered-employee payroll	25.60 %	20.57 %	17.99 %

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

SINGLE AUDIT

**LINCOLN CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Grantor Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period		Program or Award Amount	Total Received for the Year	Accrued or (Deferred) Revenue at July 1, 2015	Revenue Recognized	Federal Expenditures	Accrued or (Deferred) Revenue at June 30, 2016
				Beginning Date	Ending Date						
<u>U.S. Department of Agriculture</u>											
Passed through the Pennsylvania Department of Education											
National School Lunch Program	(I)	10.555	362	7/1/2015	6/30/2016	N/A	\$ 336,955	\$ -	\$ 336,955	\$ 336,955	\$ -
School Breakfast Program	(I)	10.553	365	7/1/2015	6/30/2016	N/A	<u>174,290</u>	<u>-</u>	<u>174,290</u>	<u>174,290</u>	<u>-</u>
Total Child Nutrition Cluster							<u>511,245</u>	<u>-</u>	<u>511,245</u>	<u>511,245</u>	<u>-</u>
Total U.S. Department of Agriculture							<u>511,245</u>	<u>-</u>	<u>511,245</u>	<u>511,245</u>	<u>-</u>
<u>U.S. Department of Education</u>											
Passed through the Pennsylvania Department of Education											
Title I Grants to LEAs	(I)	84.010	013-140886	7/1/2013	9/30/2014	\$ 471,274	233,762	233,762	-	-	-
Title I Grants to LEAs	(I)	84.010	013-150886	7/1/2014	9/30/2015	469,672	263,158	263,158	-	-	-
Title I Grants to LEAs	(I)	84.010	013-160886	7/1/2015	9/30/2016	452,288	249,745	-	447,710	447,710	197,965
Improving Teacher Quality Grants	(I)	84.367	020-140886	7/1/2013	9/30/2014	59,093	35,456	35,456	-	-	-
Improving Teacher Quality Grants	(I)	84.367	020-150886	7/1/2014	9/30/2015	59,441	33,035	33,035	-	-	-
Supporting Effective Instruction State Grant	(I)	84.367	020-160886	7/1/2015	9/30/2016	59,269	32,816	-	58,934	58,934	26,118
English Language Acquisition State Grants	(I)	84.365	010-130886	7/1/2013	9/30/2014	22,577	13,546	13,546	-	-	-
English Language Acquisition State Grants	(I)	84.365	010-140886	7/1/2014	9/30/2015	16,538	2,986	9,188	-	-	6,202
English Language Acquisition State Grants	(I)	84.365	010-150886	7/1/2015	9/30/2016	25,165	<u>13,982</u>	<u>-</u>	<u>25,165</u>	<u>25,165</u>	<u>11,183</u>
Total Passed through the Pennsylvania Department of Education							878,486	588,145	531,809	531,809	241,468
Passed through the School District of Philadelphia											
Special Education Grants to States	(I)	84.027	N/A	7/1/2015	6/30/2016	91,839	<u>-</u>	<u>-</u>	<u>91,839</u>	<u>91,839</u>	<u>91,839</u>
Total U.S. Department of Education							<u>878,486</u>	<u>588,145</u>	<u>623,648</u>	<u>623,648</u>	<u>333,307</u>
Total Federal Financial Assistance							<u>\$ 1,389,731</u>	<u>\$ 588,145</u>	<u>\$ 1,134,893</u>	<u>\$ 1,134,893</u>	<u>\$ 333,307</u>

Source Code Legend:

(I) Indicates indirect funding

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

LINCOLN CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

NOTE 1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Lincoln Charter School (the "School"). The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200. *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the School's financial statements.

NOTE 3. PROGRAM CLUSTERS

In accordance with 2 CFR section 200.518 of the Uniform Guidance, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555

NOTE 4. INDIRECT COST RATE

The School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



CITRIN COOPERMAN®

Accountants and Advisors

**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
Lincoln Charter School

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 major fund of Lincoln Charter School (a nonprofit organization) (the "School") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated February 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002.

Lincoln Charter School's Responses to Findings

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School's responses were 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.



CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
February 28, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees
Lincoln Charter School

Report on Compliance for Each Major Federal Program

We have audited Lincoln Charter School's (a nonprofit organization) (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2016. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Lincoln Charter School complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

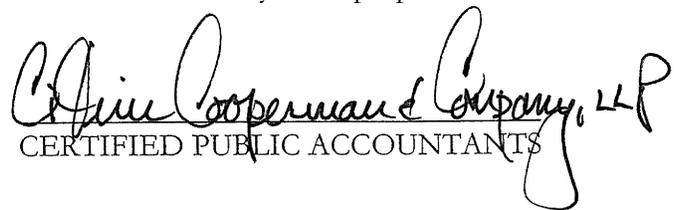
Report on Internal Control over Compliance

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

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

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

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



CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania
February 28, 2018

LINCOLN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Lincoln Charter School (the "School").
2. No material weaknesses relating to the financial statements are reported in the 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*.
3. No significant deficiencies relating to the financial statements are reported in the 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*.
4. Instances of noncompliance are reported in the 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*.
5. No material weaknesses relating to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by the Uniform Guidance.
6. No significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by the Uniform Guidance.
7. The auditor's report on compliance for each major federal award program of the School expresses an unmodified opinion.
8. There were no audit findings that were required to be reported under 2 CFR section 200.516(a).
9. The program tested as a major program was the Child Nutrition Cluster.
10. The threshold for distinguishing Type A and Type B programs was \$750,000.
11. The School does not qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2016-001 Material Noncompliance: Employee Files

Criteria:

Pennsylvania ACT 4 requires the School to obtain a criminal history background check and child abuse clearance for any employee that has direct contact with children.

Condition:

In a review of 40 employee files, six employee files were missing the proper federal criminal background clearance and one employee file was missing a child abuse clearance.

Management's review of employee files was not performed consistently.

**LINCOLN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2016**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2016-001 Material Noncompliance: Employee Files (Continued)

Cause:

Lack of management oversight resulted in employee files missing the proper documentation.

Effect:

Failure to obtain federal criminal background and child abuse clearances for any employee that has direct contact with children is a violation of laws and regulations.

Recommendation:

We recommend that management review all employee files to ensure that they contain proper documentation. We also recommend that management implement procedures to ensure that the appropriate background checks and clearances are obtained upon hiring of new personnel.

Views of Responsible Officials:

The School is in the process of reviewing all employee files to ensure that they include all proper background checks and clearances.

Finding 2016-002 Material Noncompliance: Statements of Financial Interest

Criteria:

The Pennsylvania Department of Education requires Statements of Financial Interest to be submitted by the School by May 1 of each year for all members of the Board of Trustees and senior management.

Condition:

In a review of 12 files related to members of the Board of Trustees and senior management, two files were missing the Statement of Financial Interest and one was not properly filled out.

Management's review of files was not performed consistently.

Effect:

Failure to submit Statements of Financial Interest for all members of the Board of Trustees and senior management is a violation of laws and regulations.

Recommendation:

We recommend that management implement procedures to ensure that all members of the Board of Trustees and senior management complete their Statement of Financial Interest by May 1 of each year. The School should maintain a copy of each Statement of Financial Interest for their records.

Views of Responsible Officials:

The School is in the process of designating personnel to oversee the process of obtaining and maintaining Statements of Financial Interest for all members of the Board of Trustees and senior management.

LINCOLN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2016

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS
PROGRAM AUDIT

There were no findings or questioned costs for federal awards, which would include audit findings as defined under the Uniform Guidance.

**LINCOLN CHARTER SCHOOL
SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

Finding 2015-001 Material Weakness: Financial Accounting and Reporting

Condition: This finding was a material weakness stating that management's preparation and review of financial statements and related supporting schedules were not performed timely and consistently.

Recommendation: The auditor recommended that management establish and implement policies and procedures to ensure that amounts reported in the School's financial statements are complete and accurate. Management concurred with the recommendation and indicated that the procedures would be implemented.

Current Status: The recommendation was adopted. No similar findings were noted in the June 30, 2016 audit.

Finding 2015-002 Material Weakness: Financial Accounting and Reporting

Condition: This finding was a material weakness stating that management did not adopt and submit a formal budget to the Pennsylvania Department of Education.

Recommendation: The auditor recommended that management establish and implement policies and procedures to ensure that supplementary information that is required to be presented with the School's basic financial statements is prepared on a timely basis.

Current Status: The recommendation was adopted. No similar findings were noted in the June 30, 2016 audit.

Finding 2015-003 Material Noncompliance: Employee Files

Condition: In a review of 40 employee files, four employee files were missing the proper federal criminal background clearance and one employee file was missing a child abuse clearance. Management's review of employee files was not performed consistently.

Recommendation: The auditor recommended that management review all employee files to ensure that they contain proper documentation.

Current Status: A similar finding was noted in the June 30, 2016 audit.

Finding 2015-004 Material Noncompliance: Statements of Financial Interest

Condition: In a review of 10 files related to members of the Board of Trustees and senior management, one file was missing the Statement of Financial Interest. Management's review of files was not performed consistently.

Recommendation: The auditor recommended that management implement procedures to ensure that all members of the Board of Trustees and senior management complete their Statement of Financial Interest by May 1 of each year.

Current Status: The recommendation was adopted. No similar findings were noted in the June 30, 2016 audit.

**LINCOLN CHARTER SCHOOL
SUMMARY OF PRIOR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2015**

**Finding 2015-005 Material Noncompliance and Material Weakness in Internal Controls:
National School Lunch Program - Reporting**

Condition: In a review of the School's CEP eligibility, the School was unable to supply source documents and its calculation of identified students in order to prove their CEP eligibility.

Recommendation: The auditor recommended that management establish controls to ensure that the personnel preparing the CEP eligibility calculation be properly trained.

Current Status: The recommendation was adopted. No similar findings were noted in the June 30, 2016 audit.