

**LINCOLN CHARTER SCHOOL
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

**LINCOLN CHARTER SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 7
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Fund	10
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in the Fund Balance of the Governmental Fund	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in the Fund Balance of the Governmental Fund Statement to the Statement of Activities	13
Notes to Financial Statements	14 - 26
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of the School's Proportionate Share of the Net Pension Liability	27
Schedule of School Contributions	28
SINGLE AUDIT	
Schedule of Expenditures of Federal Awards	29
Notes to Schedule of Expenditures of Federal Awards	30
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 <i>Government Auditing Standards</i>	31 - 32
Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by OMB-Circular A-133	33 - 35
Schedule of Findings and Questioned Costs	36 - 41

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lincoln Charter School

Report on the Financial Statements

We have audited the accompanying statement of net position – government wide and balance sheet – governmental fund of Lincoln Charter School (a nonprofit organization) as of June 30, 2015, and we were engaged to audit the related statements of activities – government wide and revenues, expenditures and changes in the fund balance of the governmental fund, and the related notes to the financial statements of the governmental activities and major fund for the year then ended.

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 conducting the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of activities and revenues, expenditures and changes in the fund balance of the governmental fund of the governmental activities and major fund.

We conducted our audit of the statement of net position – government wide and balance sheet – governmental fund in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement 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 statement of net position and balance sheet – governmental fund of the governmental activities and major fund 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 opinion on the statement of net position and balance sheet – governmental fund of the governmental activities and major fund.

Basis for Disclaimer of Opinion on the Statements of Activities - Government Wide and Revenues, Expenditures and Changes in the Fund Balance of the Governmental Fund

Detailed accounting records have not been maintained and supporting audit evidence was not available for balances as of and for the year ended June 30, 2014. As a result, we were unable to obtain sufficient audit evidence to support the balances at June 30, 2014.

Disclaimer of Opinion on the Statements of Activities - Government Wide and Revenues, Expenditures and Changes in the Fund Balance of the Governmental Fund

Because of the significance of the matters described in the Basis for Disclaimer paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of activities - government wide and revenues, expenditures and changes in the fund balance of the governmental fund for the year ended June 30, 2015. Accordingly, we do not express an opinion on the statements of activities - government wide and revenues, expenditures and changes in the fund balance of the governmental fund for the year ended June 30, 2015.

Opinions on the Statement of Net Position - Government Wide and Balance Sheet – Governmental Fund

In our opinion, the statement of net position - government wide and balance sheet – governmental fund referred to in the first paragraph present fairly, in all material respects, the financial position of Lincoln Charter School as of June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Adoption of Accounting Pronouncements

As discussed in Note 1, Lincoln Charter School adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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 - 28, 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, because we were unable to obtain sufficient audit evidence to support the balances as of June 30, 2014. We do not express an opinion or provide any assurance on the information.

Management has omitted the budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

Our opinions on the statement of net position and balance sheet – governmental fund of the governmental activities and major fund are not affected by this missing information.

Other Information

We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described above, it is inappropriate to and we do not express an opinion on the schedule of expenditures of federal awards.

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, 2015**

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, 2015. 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, 2015, were \$9,056,012, representing a decrease of \$377,077 from the year ended June 30, 2014.
- At June 30, 2015, the School reported an ending governmental fund balance of \$1,314,513, representing an increase of \$333,189 from June 30, 2014.
- The School's cash balance at June 30, 2015, was \$1,198,553, representing a decrease of \$108,520 from June 30, 2014.

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, 2015**

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 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. The governmental fund budgetary comparison schedule is required supplementary information that has been omitted.

Single Audit Requirements

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*.

Government-Wide Financial Analysis

	June 30,	
	2015	2014
Current assets	\$ 2,984,601	\$ 2,770,191
Capital assets	41,946	240,663
Total assets	3,026,547	3,010,854
Deferred outflows of resources	713,800	-
Current liabilities	1,454,180	2,066,493
Noncurrent liabilities	12,151,000	-
Total liabilities	13,605,180	2,066,493
Deferred inflows of resources	1,265,000	-
Net position:		
Net investment in capital assets	41,946	240,663
Unrestricted	(11,171,779)	703,698
Total net position	\$ (11,129,833)	\$ 944,361

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 of resources exceeded assets and deferred outflows of resources by \$11,129,833 as of June 30, 2015.

See independent auditor's report.

**LINCOLN CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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, 2015, the School's revenues of \$9,056,012 exceeded its expenses of \$8,734,079 by \$321,933.

	<u>Year ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$ <u>2,438,282</u>	\$ <u>1,439,795</u>
General revenues:		
Grants and contributions not restricted to specific programs	6,597,774	7,290,161
Miscellaneous	<u>19,956</u>	<u>3,767</u>
Total general revenues	<u>6,617,730</u>	<u>7,293,928</u>
Total revenues	<u>9,056,012</u>	<u>8,733,723</u>
Expenses:		
Other instructional programs	4,966,237	5,700,879
Pupil personnel services	99,666	94,718
Support services	2,669	-
Administrative services	1,509,275	1,275,860
Pupil health	135,602	-
Business services	154,563	-
Operation and maintenance of plant services	1,106,475	905,398
Other noninstructional services	125,004	318,847
Food services	410,025	71,261
Student transportation	5,231	-
Interest expense	20,615	20,276
Depreciation expense	<u>198,717</u>	<u>194,453</u>
Total expenses	<u>8,734,079</u>	<u>8,581,692</u>
Change in net position	<u>321,933</u>	<u>152,031</u>
Net position - beginning	621,987	469,956
Adjustment to beginning net position (Note 1)	<u>(12,073,753)</u>	<u>-</u>
Net position - beginning, as revised	<u>(11,451,766)</u>	<u>469,956</u>
NET POSITION - ENDING	<u>\$ (11,129,833)</u>	<u>\$ 621,987</u>

Governmental Activities

The current year change in net position increased by \$169,902 as compared to the prior year change in net position as a result of expenses, primarily related to salaries and benefits, related to expanding the operations of the School.

See independent auditor's report.

**LINCOLN CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 and total fund balance of the general fund was \$1,314,513.

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, 2015, the School's net investment in capital assets for its governmental activities totaled \$41,946 (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, 2015, the School had \$250,000 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, 2015**

	Governmental Activities
ASSETS	
Cash	\$ 1,198,553
State subsidies receivable	108,475
Federal subsidies receivable	588,146
Local school districts receivable	1,032,097
Other current assets	57,330
Capital assets:	
Computer equipment	788,783
Leasehold improvements	140,590
Curriculum - textbooks	399,125
Less: accumulated depreciation	<u>(1,286,552)</u>
Total assets	<u>3,026,547</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pension	<u>713,800</u>
LIABILITIES	
Accounts payable and accrued expenses	234,734
Accrued salary and benefits	447,570
Due to EdisonLearning	288,012
Due to local school districts	233,864
Line of credit	250,000
Long-term obligations, due beyond one year:	
Pension liability	<u>12,151,000</u>
Total liabilities	<u>13,605,180</u>
Commitments and contingencies (Notes 6, 7, 8, 9, 10, 11, and 12)	
DEFERRED INFLOWS OF RESOURCES	
Related to pension	<u>1,265,000</u>
NET POSITION	
Net investment in capital assets	41,946
Unrestricted	<u>(11,171,779)</u>
Total net position	<u>\$ (11,129,833)</u>

See accompanying notes to financial statements.

**LINCOLN CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

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	\$ 4,966,237	\$ -	\$ 1,861,650	\$ (3,104,587)
Pupil personnel services	99,666	-	-	(99,666)
Support	2,669	-	-	(2,669)
Administrative services	1,509,275	-	-	(1,509,275)
Pupil health	135,602	-	3,951	(131,651)
Business services	154,563	-	-	(154,563)
Operation and maintenance of plant services	1,106,475	-	105,326	(1,001,149)
Noninstructional support services	52,140	-	-	(52,140)
Student activities	72,864	-	-	(72,864)
Student transportation	5,231	-	-	(5,231)
Food service	410,025	-	467,355	57,330
Interest expense	20,615	-	-	(20,615)
Depreciation expense (Note 5)	<u>198,717</u>	<u>-</u>	<u>-</u>	<u>(198,717)</u>
Total governmental activities	<u>\$ 8,734,079</u>	<u>\$ -</u>	<u>\$ 2,438,282</u>	<u>(6,295,797)</u>
General revenues:				
Local educational agencies				6,597,774
All other revenue				<u>19,956</u>
Total general revenues				<u>6,617,730</u>
Change in net position				<u>321,933</u>
Net assets - beginning				621,987
Cumulative effect on net position - beginning of year adoption of GASB 68				<u>(12,073,753)</u>
Net position - beginning, as revised				<u>(11,451,766)</u>
NET POSITION - ENDING				<u>\$ (11,129,833)</u>

See accompanying notes to financial statements.

**LINCOLN CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2015**

	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 1,198,553
State subsidies receivable	108,475
Federal subsidies receivable	588,146
Local school districts receivable	1,032,098
Other current assets	<u>57,330</u>
TOTAL ASSETS	\$ <u>2,984,602</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities	
Accounts payable and accrued expenses	\$ 234,734
Accrued salary and benefits	913,480
Due to EdisonLearning	288,012
Due to local school districts	<u>233,863</u>
Total liabilities	1,670,089
Fund balance	
Unassigned	<u>1,314,513</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>2,984,602</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, 2015**

Total fund balance for the governmental fund \$ 1,314,513

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	(250,000)	
Net pension liability, net of required contractual liability	<u>(11,685,092)</u>	(11,935,092)

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>(1,286,552)</u>	41,946

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 as follows:

Deferred outflows of resources related to pensions	713,800	
Deferred inflows of resources related to pensions	<u>(1,265,000)</u>	<u>(551,200)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (11,129,833)**

**LINCOLN CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND
BALANCE OF THE GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

	<u>General Fund</u>
Revenues:	
Local educational agencies	\$ 7,776,504
Other local sources	19,955
State sources	200,556
Federal sources	<u>1,058,997</u>
Total revenues	<u>9,056,012</u>
Expenditures:	
Instruction	4,851,279
Support services	2,964,708
Noninstructional services	536,221
Debt service	<u>370,615</u>
Total expenditures	<u>8,722,823</u>
Net change in fund balance	333,189
Fund balance - beginning	<u>981,324</u>
FUND BALANCE - ENDING	<u>\$ 1,314,513</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, 2015
(UNAUDITED)**

Net change in fund balance - governmental fund \$ 333,189

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	350,000
-----------------------------	---------

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>(198,717)</u>	
		(198,717)

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	(969,000)	
Cost of benefits earned net of employee contributions	<u>806,461</u>	
		<u>(162,539)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 321,933

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)

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 that originally expired on June 30, 2015. The charter was renewed on July 1, 2015 through June 30, 2020. The School is located in York, Pennsylvania. During the 2014-2015 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") Statements 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, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)

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. 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.

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)

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

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:

- 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.
- 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.

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)

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

Fund Balance Classification Policies and Procedures (Continued)

- 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.

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, 2015, based on historical experience, no allowance 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.

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.

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)

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

Deferred Outflows/Inflows of Resources (Continued)

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 which totaled \$172 for the year ended June 30, 2015.

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, 2015, the School had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the School had no interest or penalties related to income taxes.

Pensions

The School adopted 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") during the year ended June 30, 2015. The adoption resulted in a decrease in beginning net position of \$12,073,753. 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.

Pending Changes in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 identifies the hierarchy of generally accepted accounting principles, in the context of the current governmental financial reporting environment. The provisions of GASB 72 and 76 are effective for the School's June 30, 2016, financial statements and will not have a material impact on the School's financial statements and related disclosures.

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)**

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

Subsequent Events

The School has evaluated subsequent events through February 28, 2018, the date on which these financial statements were available to be issued. Except as disclosed in Notes 1 (see "Background"), 6, and 7, there were no material subsequent events 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 may pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits.

As of June 30, 2015, the custodial credit risk is as follows:

Uninsured and uncollateralized	\$ 1,108,746
Collateralized	-
Uninsured and collateral held by the pledging bank's trust department, not in the School's name	<u>-</u>
	<u>\$ 1,108,746</u>

Reconciliation to the financial statements:

Cash exposed to custodial risk	\$ 1,108,746
Plus: insured amount	250,000
Less: outstanding checks	<u>(160,193)</u>
	<u>\$ 1,198,553</u>

NOTE 3. RECEIVABLES

A summary of receivables is as follows:

	<u>Amount</u>
Federal	\$ 588,146
State	108,475
Local	<u>1,032,097</u>
	<u>\$ 1,728,718</u>

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.

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)

NOTE 4. LOCAL EDUCATIONAL AGENCY ASSISTANCE (REVENUE)
(CONTINUED)

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, 2015, the rate for most of the students was \$8,952 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 \$7,776,504 for the year ended June 30, 2015.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Disposals	Balance June 30, 2015
Computer equipment	\$ 788,783	\$ -	\$ -	\$ 788,783
Leasehold improvements	140,590	-	-	140,590
Curriculum - textbooks	399,125	-	-	399,125
Less: accumulated depreciation	(1,087,835)	(198,717)	-	(1,286,552)
Capital assets, net	<u>\$ 240,663</u>	<u>\$ (198,717)</u>	<u>\$ -</u>	<u>\$ 41,946</u>

Depreciation expense for the year ended June 30, 2015, was \$198,717.

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% (4.25% at June 30, 2015), 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. Management fees for the year ended June 30, 2015, were \$230,918. The School has a balance due to EdisonLearning of \$288,012 at June 30, 2015. During 2016, the School terminated its relationship with EdisonLearning.

NOTE 8. FACILITY LEASING ARRANGEMENT

The School leases its facility from the School District of the City of York ("SDYC") under a noncancellable 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, 2015, rent expense for the facility was \$280,219.

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)**

NOTE 8. FACILITY LEASING ARRANGEMENT (CONTINUED)

Future minimum lease payments as of June 30, 2015, under the lease are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2016	\$ 281,882
2017	282,481
2018	283,464
2019	291,287
2020	<u>292,134</u>
	<u>\$ 1,431,248</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 PA.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 10 years of service.

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)**

NOTE 9. RETIREMENT PLAN (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, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)

NOTE 9. RETIREMENT PLAN (CONTINUED)

Contributions (Continued)

The School's contractually required contribution rate for the fiscal year ended June 30, 2015, was 21.4% 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, 2015, 2014, and 2013, amounted to \$806,461, \$735,978, and \$342,372, respectively.

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

At June 30, 2015, the School reported a liability of \$12,151,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 (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, 2013, to June 30, 2014. 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, 2014, the School's proportion was 0.0307%, which was a decrease of 0.0012% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School recognized pension expense of \$969,000. At June 30, 2015, 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	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	(869,000)
Changes in proportions	-	(396,000)
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	<u>713,800</u>	<u>-</u>
	<u>\$ 713,800</u>	<u>\$ (1,265,000)</u>

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)

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, 2016. 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	\$ (313,000)
2017	(313,000)
2018	(313,000)
2019	(313,000)
2020	<u>(13,000)</u>
	<u>\$ (1,265,000)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2014, was determined by rolling forward the PSERS's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014, 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, 2013, 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.

LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)

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

Actuarial Assumptions (Continued)

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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	19 %	5.0 %
Private markets (equity)	21 %	6.5 %
Private real estate	13 %	4.7 %
Global fixed income	8 %	2.0 %
U.S. long treasuries	3 %	1.4 %
Treasury inflation-protected securities	12 %	1.2 %
High yield bonds	6 %	1.7 %
Cash	3 %	0.9 %
Absolute return	10 %	4.8 %
Risk parity	5 %	3.9 %
Master limited partnerships/Infrastructure	3 %	5.3 %
Commodities	6 %	3.3 %
Financing (LIBOR)	<u>(9) %</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, 2014.

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:

**LINCOLN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015
(INFORMATION WITH RESPECT TO THE YEAR ENDED JUNE 30, 2015 IS
UNAUDITED)**

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
The School's proportionate share of the net pension liability	\$ <u>15,157,000</u>	\$ <u>12,151,000</u>	\$ <u>9,585,000</u>

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

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
School's proportion of the net pension liability	0.0307 %	0.0319 %
School's proportionate share of the net pension liability	\$ 12,151,000	\$ 13,059,000
School's covered-employee payroll	\$ 3,920,004	\$ 4,091,495
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	309.97 %	319.17 %
Plan fiduciary net position as a percentage of the total pension liability	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, 2015</u>	<u>June 30, 2014</u>
School's contractually required contribution	\$ 806,461	\$ 735,978
School's contributions in relation to the contractually required contribution	<u>340,551</u>	<u>735,978</u>
Contribution deficiency	<u>\$ 465,910</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 3,920,004	\$ 4,091,495
Contributions as a percentage of covered-employee payroll	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, 2015**

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, 2014	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2015
				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	7/1/2014	6/30/2015	N/A	\$ 333,220	\$ -	\$ 333,220	\$ 333,220	\$ -
School Breakfast Program	(I)	10.553	365	7/1/2014	6/30/2015	N/A	<u>109,843</u>	<u>-</u>	<u>109,843</u>	<u>109,843</u>	<u>-</u>
Total Child Nutrition Cluster							<u>443,063</u>	<u>-</u>	<u>443,063</u>	<u>443,063</u>	<u>-</u>
Total Passed through the Pennsylvania Department of Education and the U.S. Department of Agriculture							<u>443,063</u>	<u>-</u>	<u>443,063</u>	<u>443,063</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	155,842	389,604	-	-	233,762
Title I Grants to LEAs	(I)	84.010	013-150886	7/1/2014	9/30/2015	469,672	206,514	-	469,672	469,672	263,158
School Improvement Set Aside	(I)	84.010	042-130886	7/1/2013	9/30/2014	38,772	31,017	31,017	-	-	-
Improving Teacher Quality Grants	(I)	84.367	020-140886	7/1/2013	9/30/2014	59,093	23,637	59,093	-	-	35,456
Improving Teacher Quality Grants	(I)	84.367	020-150886	7/1/2014	9/30/2015	59,441	26,406	-	59,441	59,441	33,035
English Language Acquisition State Grants	(I)	84.365	010-140886	7/1/2013	9/30/2014	22,577	9,031	22,577	-	-	13,546
English Language Acquisition State Grants	(I)	84.365	010-150886	7/1/2014	9/30/2015	16,538	<u>7,350</u>	<u>-</u>	<u>16,538</u>	<u>16,538</u>	<u>9,188</u>
Total Passed through the Pennsylvania Department of Education							459,797	502,291	545,651	545,651	588,145
Passed through the School District of Philadelphia											
Special Education Grants to States	(I)	84.027	N/A	7/1/2014	6/30/2015	<u>70,283</u>	<u>70,283</u>	<u>-</u>	<u>70,283</u>	<u>70,283</u>	<u>-</u>
Total U.S. Department of Education									<u>615,934</u>	<u>615,934</u>	
Total Federal Financial Assistance						\$ <u>1,207,650</u>	\$ <u>973,143</u>	\$ <u>502,291</u>	\$ <u>1,058,997</u>	\$ <u>1,058,997</u>	\$ <u>588,145</u>

Source Code Legend:

- (D) Indicates direct funding
- (I) Indicates indirect funding

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

LINCOLN CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2. 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 Subpart A105 of OMB Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*, 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

**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 statement of net position - government wide and balance sheet – governmental fund of Lincoln Charter School (a nonprofit organization) (the "School") as of June 30, 2015, and we were engaged to audit the related statements of activities - government wide and revenues, expenditures and changes in the fund balance of the governmental fund for the year then ended, and have issued our report thereon dated February 28, 2018. Our report disclaims an opinion on the statements of activities - government wide and revenues, expenditures and changes in the fund balance of the governmental fund because we were unable to obtain sufficient audit evidence to support the balances as of and for the year ended June 30, 2014.

Internal Control over Financial Reporting

In connection with our engagement to audit the School's financial statements, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2015-001 and 2015-002 to be material weaknesses.

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.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the School, 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 questioned costs as findings 2015-003 and 2015-004 on pages 39 - 40. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Lincoln Charter School's Response to Findings

The School's responses to the findings identified in our engagement 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 engagement to audit 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 engagement to perform and audit 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.



CITRIN COOPERMAN & COMPANY, LLP
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 OMB-CIRCULAR A-133

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 *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2015. The School's major federal programs are 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

Basis for Qualified Opinion on National School Lunch Program

As described in the accompanying schedule of findings and questioned costs, the School did not comply with requirements regarding CFDA 10.555 National School Lunch Program as described in finding 2015-005 for reporting. Compliance with such requirements is necessary, in our opinion, for the School to comply with the requirements applicable to that program.

Qualified Opinion on National School Lunch Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the National School Lunch Program for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

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 OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-005 to be a material weakness.

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.

Report on Internal Control over Compliance (Continued)

The School's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. 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, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the statement of net position and balance sheet – governmental fund of the governmental activities and major fund and disclaims an opinion on the statements of activities and revenues, expenditures and changes in the fund balance of the governmental fund of the governmental activities and major fund of Lincoln Charter School (“the School”).
2. 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. A material weakness relating to the audit of major federal award programs is reported in the Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by OMB Circular A-133.
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 OMB Circular A-133.
7. The auditor's report on compliance for each major federal award program of the School expresses an unmodified opinion except for:
 - a. CFDA 10.555 National School Lunch Program (part of the Child Nutrition Cluster), which is qualified for reporting.
8. Audit findings that were required to be reported under section 510(a) of OMB Circular A-133 are disclosed.
9. The programs tested as major programs were Title I Grants to LEAs, CFDA #84.010 and Child Nutrition Cluster.
10. The threshold for distinguishing Type A and Type B programs was \$300,000.
11. The School does not qualify as a low-risk auditee.

LINCOLN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2015-001 Material Weakness: Financial Accounting and Reporting

Criteria:

Timely and accurate internal and external financial reporting is an important cornerstone of an organization's control environment. Financial reporting provides the foundation for financial analysis, a critical component needed to be able to respond timely to financial related issues.

Condition and Context:

The School's process for preparing the financial statements has historically been a highly manual process, which is subject to human error, inconsistencies, and is time consuming. Based upon available staffing and resources, this process leaves little time for complex analysis to occur and therefore, the ability to report on what is occurring and respond or improve the financial reporting function of the School is difficult.

Management's preparation and review of financial statements and related supporting schedules in the areas of accounts receivable, accounts payable, accrued expenses, accrued salary and benefits, net position, revenues and payroll and benefits expenses were not performed timely and consistently.

Cause

Adequate controls, policies and procedures were not in place to ensure amounts in the School's financial statements are complete and accurate.

Effect

A number of adjusting journal entries were identified as part of the audit and a number of changes were needed to the footnotes to ensure their completeness and accuracy at year-end. Audit adjustments and corrections were needed in several areas and disclosures. Management often did not have timely and reliable information to review reports for accuracy before they were submitted to the appropriate parties.

Recommendations

We recommend that management establish and implement policies and procedures to ensure that amounts reported in the School's financial statements are complete and accurate. The School should consider implementing a comprehensive plan to upgrade the processes, procedures, systems, and capabilities of financial accounting and reporting, including the allocation of resources needed to manage the financial activities of the organization. This plan should at least encompass the following:

- Develop and implement a plan and schedule of interim financial reports and schedules that are prepared and reviewed so that actions can be taken and informed decisions can be made in a timely manner.
- Review financial statements and disclosures for completeness, validity, and presentation. Responsibilities of both preparers and reviewers of these financial statements should be clearly defined.

LINCOLN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2015-001 Material Weakness: Financial Accounting and Reporting (Continued)

Recommendations (Continued)

- Proactively manage the relationships with third parties such as external business managers and challenge the information received to ensure that management is in agreement with methodologies and assumptions made and that the information received is accurate and complete, and complies with relevant accounting standards.
- Implement a process that requires designated personnel to read minutes of board meetings to identify resolutions that have an impact on the School's financial reporting and compliance and prepare an action plan accordingly.
- Implement a process during the year and at year-end that requires designated personnel to perform financial analysis of fund financial statements by comparing current year balances to prior balances, identify variances or relationships that are not consistent with operations and obtain explanations which will help management identify issues prior to finalization of close process.

Views of Responsible Officials

The School reviews and makes improvements to internal controls on an ongoing basis. The School terminated its relationship with its previous business manager and has engaged a new business services provider to assist with the financial reporting function.

Finding 2015-002 Material Weakness: Financial Accounting and Reporting

Criteria:

Accounting principles generally accepted in the United States of America require management to present the Schedule of Revenues, Expenditures and Changes in the Fund Balance Budget and Actual to supplement the basic financial statements. Such missing information is, although not a part of the basic financial statements, 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.

Condition and Context:

Management of the School did not adopt and submit a formal budget to the Pennsylvania Department of Education.

Management's preparation and review of financial statements and related supporting information was not performed timely and consistently.

Cause:

Lack of management oversight resulted in failure of the School to adopt and submit a formal budget.

**LINCOLN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015**

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2015-002 Material Weakness: Financial Accounting and Reporting (Continued)

Effect:

Failure to adopt a formal budget resulted in the omission of required supplementary information being presented with the basic financial statements.

Recommendation:

We recommend 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. The School should require designated personnel to oversee the preparation and adoption of the School's annual budget.

Views of Responsible Officials

The School reviews and makes improvements to internal controls on an ongoing basis. The School has implemented procedures to adopt a formal budget for the year ending June 30, 2016. The budget for the year ending June 30, 2016, was submitted to the Pennsylvania Department of Education. Management does not expect to omit any required supplementary information from the School's June 30, 2016, financial statements.

Finding 2015-003 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 and Context:

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.

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.

LINCOLN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015

B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2015-004 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 and Context:

In a review of ten 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.

Cause:

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

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.

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

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

Program:

CFDA 10.555, National School Lunch Program for fiscal year ended June 30, 2015, from the United States Department of Agriculture passed through the Pennsylvania Department of Agriculture.

Criteria:

The School is able to qualify for the Community Eligibility Program (the "CEP") for the year ended June 30, 2015. In order to qualify, the School must identify students who are automatically eligible for free meals based on criteria as defined by the CEP. The School must have at least 40% of their students meet certain eligibility requirements. In addition, the School is required calculate continuing eligibility under the CEP on an annual basis using the prior year listing of eligible students.

LINCOLN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015

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

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

Condition and context:

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.

Cause:

Controls have not been properly designed or implemented to ensure that the CEP eligibility calculation is performed and timely submitted.

Effect:

Failure to maintain underlying records violates the eligibility requirement of the CEP.

Recommendation:

We recommend that management establish controls to ensure that the personnel preparing the CEP eligibility calculation be properly trained. Further we recommend that the CEP eligibility calculation be reviewed and approved by someone independent of the preparer so it can be submitted accurately and timely.

Views of Responsible Officials:

The School reviews and makes improvements to internal controls on an ongoing basis. The School terminated its relationship with its previous business manager and has engaged a new business services provider, to assist with all aspects of the financial reporting function. The CEP eligibility calculation was submitted and appropriately maintained by the School's personnel during the year ended June 30, 2016.