

Gettysburg Montessori Charter School

**Financial Statements
And
Independent Auditor's Report**

Year Ended June 30, 2016

Gettysburg Montessori Charter School
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Year Ended June 30, 2016

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Independent Auditor's Report

To the Board of Trustees
Gettysburg Montessori Charter School
Gettysburg, Pennsylvania

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the major fund of Gettysburg Montessori Charter School as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

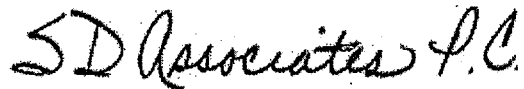
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016, on our consideration of Gettysburg Montessori 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 the 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 Gettysburg Montessori Charter School's internal control over financial reporting and compliance.



Certified Public Accountants
Elkins Park, Pennsylvania

December 8, 2016

Gettysburg Montessori Charter School Management's Discussion and Analysis June 30, 2016

The Board of Trustees of Gettysburg Montessori 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 fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- Total revenues decreased by approximately \$79,000 due mainly to a decrease in the student population.
- At the close of the current fiscal year, the School reports an ending general fund deficit of \$236,890. This balance was the result of a \$723,424 deficit for the year ended June 30, 2016.
- The School's cash balance at June 30, 2016 was \$94,234, representing a decrease of \$457,565 from June 30, 2015.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements as presented comprise three components: Management's Discussion and Analysis (this section), the basic financial statements, and supplementary information.

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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the components (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) 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 fiscal 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.

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.

In the statement of net assets and the statement of activities, the School is divided into two kinds of activities:

Governmental activities - Most of the School's basic services are reported here.

Gettysburg Montessori Charter School Management's Discussion and Analysis June 30, 2016

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

Business-type activities - The School offers breakfast and lunch to the students.

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's two kinds of funds, governmental and proprietary, use different accounting approaches.

Most of the School's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. Such information is useful in assessing the School's financing requirements. In particular, *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 fiscal year.

When the School charges students for services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the School's enterprise fund (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

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 governmental fund budgetary comparison schedule, schedule of the school's proportionate share of the net pension liability, and schedule of school contributions-pension plan, are presented for purposes of additional analysis.

Government-Wide Financial Analysis

Management has adopted Governmental Accounting Standards Board (GASB) Statement 34 which requires a comparative analysis of current and prior periods.

Gettysburg Montessori Charter School Management's Discussion and Analysis June 30, 2016

Government-Wide Financial Analysis (Continued)

	2016	2015
Assets		
Current and other assets	\$ 161,458	\$ 726,444
Capital assets, net	774,698	38,288
	936,156	764,732
Deferred Outflows of Resources	1,034,048	637,143
Liabilities		
Current liabilities	398,348	239,910
Long-term liabilities	2,773,000	1,939,000
	3,171,348	2,178,910
Deferred Inflows of Resources	17,000	139,000
Net Position	\$ (1,218,144)	\$ (916,035)

As noted earlier, net position may serve over time as a useful indicator of a school's financial position. In the case of the School, liabilities exceeded assets by \$1,218,144 as of June 30, 2016, an increase of \$302,109 from June 30, 2015.

The School's revenues are predominately local school district's funds based on the student enrollment. For the year ended June 30, 2016, the School's total expenditures of \$2,167,552 exceeded revenues of \$1,865,443 by \$302,109, an increase of \$296,077 as compared to the preceding year.

	2016	2015
Revenues		
Program revenues		
Local educational agency assistance	\$ 1,720,181	\$ 1,788,772
State sources	7,312	16,170
Federal sources	46,708	42,811
General revenues		
Other revenues	87,001	86,182
Food service	4,241	10,680
Total revenues	1,865,443	1,944,615

**Gettysburg Montessori Charter School
Management's Discussion and Analysis
June 30, 2016**

Government-Wide Financial Analysis (Continued)

Expenditures		
Instruction	1,505,545	1,291,012
Support services	625,844	626,359
Noninstructional services	24,759	24,350
Depreciation expense	11,404	8,926
Total expenditures	<u>2,167,552</u>	<u>1,950,647</u>
Change in net position	(302,109)	(6,032)
Net position, beginning	<u>(916,035)</u>	<u>(910,003)</u>
Net position, ending	<u>\$ (1,218,144)</u>	<u>\$ (916,035)</u>

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, *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 fiscal year.

The School's governmental fund (the General Fund) reported an ending fund deficit of \$236,890.

Budget Variations

The actual revenues represent a decrease from budgeted revenues of \$48,194 due to increases (decreases) as follows:

Local educational agency assistance	\$ (139,899)
Other sources	83,001
State sources	(2,103)
Federal sources	20,807
	<u>\$ (38,194)</u>

Actual expenditures increased \$713,779 from the budget due to increases (decreases) as follows:

Instruction	\$ 25,716
Support services	(44,438)
Noninstructional services	3,950
Capital outlay	736,026
Debt service	(100)
	<u>\$ 721,254</u>

Gettysburg Montessori Charter School Management's Discussion and Analysis June 30, 2016

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, the School's investment in capital assets for its governmental activities totaled \$774,698 (net of accumulated depreciation). This investment in capital assets includes furniture and equipment, and building and improvements.

Major capital assets purchases during the year included the following:

- Capital expenditures of \$747,814 for building and improvements.

Additional information on the School's capital assets can be found in Note 4 of this report.

Long-Term Debt

The School does not have any long-term liabilities at this time. See Note 13 for information regarding financing arrangements entered into subsequent to year-end.

Economic Factors and Next Year's Budgets and Rates

The School's primary source of revenue, the per student subsidy provided by local school districts, is expected to increase approximately \$244,000 for fiscal year 2016-2017 due to an anticipated increase in student enrollment.

Future Events that will Financially Impact the School

Except as listed above economic factors, there are no known future events that will financially impact the School.

Contacting the School's Financial Management

The 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 should be addressed to the CEO, Gettysburg Montessori Charter School, 888 Coleman Road, Gettysburg, PA 17325.

Gettysburg Montessori Charter School
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 94,234
State subsidies receivable	2,601
Prepaid expenses	53,130
Property and equipment, net	774,698
Deposits	11,493
Total assets	936,156
Deferred Outflows of Resources	
Deferred outflows related to pensions	1,034,048
Liabilities	
Accounts payable	140,208
Accrued expenses	258,140
Net pension liability	2,773,000
Total liabilities	3,171,348
Deferred Inflows of Resources	
Deferred inflows related to pensions	17,000
Net Position	
Invested in capital assets, net	774,698
Unrestricted	(1,992,842)
	\$ (1,218,144)

See accompanying notes to financial statements.

Gettysburg Montessori Charter School
Statement of Activities
Year Ended June 30, 2016

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Totals</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	
Governmental Activities						
Instruction	\$ 1,505,545	\$ 1,282,112	\$ 46,708	\$ (176,725)	\$ -	\$ (176,725)
Support services	625,844	505,100	7,312	(113,432)	-	(113,432)
Noninstructional services	16,750	19,034	-	2,284	-	2,284
Depreciation expense	11,404	-	-	(11,404)	-	(11,404)
Total governmental activities	<u>2,159,543</u>	<u>1,806,246</u>	<u>54,020</u>	<u>(299,277)</u>	<u>-</u>	<u>(299,277)</u>
Business-Type Activities						
Food service	8,009	4,241	-	-	(3,768)	(3,768)
	<u>\$ 2,167,552</u>	<u>\$ 1,810,487</u>	<u>\$ 54,020</u>	<u>(299,277)</u>	<u>(3,768)</u>	<u>(303,045)</u>
General Revenues						
Other revenues				936	-	936
Transfers				(3,768)	3,768	-
Change in net position				(302,109)	-	(302,109)
Net Position - Beginning of Year				(916,035)	-	(916,035)
Net Position - End of Year				<u>\$ (1,218,144)</u>	<u>\$ -</u>	<u>\$ (1,218,144)</u>

See accompanying notes to financial statements.

Gettysburg Montessori Charter School
Balance Sheet-Governmental Fund
June 30, 2016

	General Fund
Assets	
Cash and cash equivalents	\$ 94,234
State subsidies receivable	2,601
Prepaid expenses	53,130
Security deposits	11,493
Total assets	\$ 161,458
Liabilities	
Accounts payable	\$ 140,208
Accrued expenses	258,140
Total liabilities	398,348
Fund Balances	
Nonspendable	64,623
Unassigned	(301,513)
	(236,890)
	\$ 161,458

See accompanying notes to financial statements.

Gettysburg Montessori Charter School
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2016

Total Fund Balance for Governmental Funds \$ (236,890)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Building and improvements	747,814	
Furniture and equipment	61,660	
Accumulated depreciation	<u>(34,776)</u>	
		774,698

Long-term liabilities that pertain to governmental funds 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. Long-term liabilities at year end consist of:

Net pension liability	(2,773,000)
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Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflows related to pensions	1,034,048
Deferred inflows related to pensions	<u>(17,000)</u>

Total Net Position of Governmental Activities **\$ (1,218,144)**

Gettysburg Montessori Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balance
(Deficit)-Governmental Fund
Year Ended June 30, 2016

	General Fund
Revenues	
Local educational agency assistance	\$ 1,720,181
State sources	7,312
Federal sources	46,708
Other revenues	87,001
Total revenues	1,861,202
Expenditures	
Instruction	1,229,887
Support services	586,407
Noninstructional services	16,750
Capital outlay	747,814
Total expenditures	2,580,858
Expenditures in Excess of Revenues	(719,656)
Other Financing Uses	
Interfund transfers out	(3,768)
Net Change in Fund Balance	(723,424)
Fund Balance - Beginning of Year	486,534
Fund Deficit - End of Year	\$ (236,890)

See accompanying notes to financial statements.

**Gettysburg Montessori Charter School
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2016**

Net Change in Fund Balance - Total Governmental Funds **\$ (723,424)**

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense. This is the amount by which capital outlays exceeds depreciation in the current period.

Capital outlays	747,814	
Depreciation expense	<u>(11,404)</u>	
		736,410

Governmental funds report School pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

School pension contributions	170,520	
Cost of benefits earned net of employee contributions	<u>(485,615)</u>	

Change in Net Position of Governmental Activities **\$ (302,109)**

Gettysburg Montessori Charter School
Statement of Revenues, Expenditures, and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2016

	Enterprise Fund
	Food Service Fund
Operating Income	\$ 4,241
Operating Expenses	
Food	8,009
Operating loss	(3,768)
Interfund transfers in	3,768
Change in Net Position	-
Net Position - Beginning of Year	-
Net Position - End of Year	\$ -

See accompanying notes to financial statements.

Gettysburg Montessori Charter School
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2016

	Enterprise Fund
	Food Service Fund
Cash Flows From Operating Activities	
Cash received from students	\$ 4,241
Payments to suppliers	(8,009)
Net cash used in operating activities	(3,768)
Cash Flows From Noncapital Financing Activities	
Transfer to other fund	3,768
Net cash provided by noncapital financing activities	3,768
Net increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ -
Reconciliation of Operating Loss to Net Cash Used In Operating Activities	
Operating loss	\$ (3,768)
Net cash used in operating activities	\$ (3,768)

See accompanying notes to financial statements.

Gettysburg Montessori Charter School

Notes to Financial Statements

June 30, 2016

Note 1 Background and Summary of Significant Accounting Policies

Gettysburg Montessori 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 School is operating under a charter school contract ending on June 30, 2020.

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by program revenues.

The fund financial statements (governmental fund balance sheet and statement of governmental fund revenues, expenditures and changes in fund balance) report on the School's general fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements:

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 90 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The funds utilized by the School and brief descriptions of their accounting purposes are as follows:

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 1 Background and Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental Fund - The fund listed below is the fund through which most governmental functions are furnished.

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

Proprietary Fund - The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the School:

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services, and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Amounts reported as program revenues include a per-student subsidy from local school districts as well as federal and state grants. Internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Method of Accounting

The School has adopted the provision of Statement No. 34 (“Statement 34”) of the Governmental Accounting Standards Board “*Basic Financial Statements – and Managements’ Discussion and Analysis – for State and Local Governments.*” Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These calculations are defined as follows:

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 1 Background and Summary of Significant Accounting Policies (Continued)

Method of Accounting (Continued)

- Invested in capital assets, net of related debt – 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 debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on asset use through external constraints imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position – This component of net position typically includes unrestricted liquid assets.

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

Fund Balances - Governmental Funds

The School elected to implement GASB No. 54, *Fund Balance Reporting and Governmental Type Definition* during the year ended June 30, 2012. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The School classified prepaid expenses and security deposits as being nonspendable as these items are not expected to be converted to cash.

- Restricted - included amounts restricted by external sources, such as creditors or grantors, or by constitutional provision or enabling legislation.

- Committed - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees.

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 1 Background and Summary of Significant Accounting Policies (Continued)

Fund Balances - Governmental Funds (Continued)

- Assigned - includes amounts that the School intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned - includes all amounts that are not included in other spendable classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual budget is adopted for the General Fund.

The Budgetary Comparison Schedule should present both the original and the final appropriated budgets for the reporting period. The School only has a general fund budget; therefore, the original budget filed and accepted by the Pennsylvania Department of Education is the final budget as well.

Use of Estimates

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

Transfers

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the School's cash and cash equivalents is considered to be cash on hand and demand deposits.

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 1 Background and Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

Periodically, the School may maintain deposits in excess of the Federal Deposit Insurance Corporation's limit of \$250,000 with financial institutions. Under Pennsylvania Act 72, financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School's accounts are covered by this Act.

Capital Assets

Capital assets, which include property, plant and equipment, 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 does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital assets of the School are depreciated using the straight-line method over the useful lives of the assets; furniture and equipment (5 years) and building and improvements (25 years).

Advertising Costs

All costs associated with advertising and promotions are recorded as expenditures in the year incurred.

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. The School adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management evaluated the School's tax positions and concluded that the School had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The School files a Return of Organizations Exempt from Income Tax annually. The School's returns for 2013, 2014, and 2015 are subject to examination by the IRS, generally for three years after they were filed.

Pensions

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

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 1 Background and Summary of Significant Accounting Policies (Continued)

Pensions (Continued)

General Information About the Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 1 Background and Summary of Significant Accounting Policies (Continued)

Pensions (Continued)

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

The School's contractually required contribution rate for fiscal year ended June 30, 2016 was 25.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School were \$174,115 for the year ended June 30, 2016.

Note 2 Cash and Cash Equivalents

The School's cash and cash equivalents balance at June 30, 2016 was \$94,234. The actual amount of cash on deposit in the School's bank accounts at June 30, 2016 was \$94,404. As of June 30, 2016, the entire amount was insured by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk-Deposits

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 2 Cash and Cash Equivalents (Continued)

Custodial credit risk is the risk than in the event of a bank failure, the School's uninsured deposits may not be returned. The School does not have a policy for custodial credit risk.

Note 3 Receivables

Receivables as of June 30, 2016 consist primarily of subsidies from federal, state, and local authorities. All receivables are considered collectible due to the stable condition of these programs.

Note 4 Capital Assets

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

	Balance, 7/1/15	Additions	Deletions	Balance, 6/30/16
Governmental Activities				
Furniture and equipment	\$ 61,661		\$ -	\$ 61,661
Building and improvements	-	747,814	-	747,814
	61,661	747,814	-	809,475
Less: accumulated depreciation	23,373	11,404	-	34,777
	\$ 38,288	\$ (11,404)	\$ -	\$ 774,698

Depreciation and amortization expense was \$11,404 for the year ended June 30, 2016.

Note 5 Line of Credit

The School maintains a \$150,000 line of credit agreement (line) with Meridian Bank payable on demand which accrues interest at 5%. The line is for working capital purposes and is collateralized by School assets. As of June 30, 2016, \$150,000 was available to be drawn upon. There was no activity on the line during the year ended June 30, 2016. See Note 13 for financing arrangements entered into subsequent to year-end.

Note 6 Funding

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

Note 7 Interfund Transfers

Operating transfers in/out to other funds consists of the following:

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 7 Interfund Transfers (Continued)

	Transfer In	Transfer Out
General fund	\$ -	\$ 3,768
Food service fund	3,768	-
	\$ 3,768	\$ 3,768

Note 8 Commitments

Operating Lease

The School leases its facility in Gettysburg, Pennsylvania with the Gettysburg Area School District under an operating lease which expired on June 30, 2016. Rent expense was \$173,971 for the year ended June 30, 2016.

Note 9 Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the School reported a liability of \$2,773,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2015, the School's proportion was 0.0064% percent, which was an increase of 0.0015% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$485,614. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 6,000
Changes in proportions	859,000	-
Difference between projected and actual experience		11,000
Difference between employer contributions and proportionate share of total contributions	4,528	-

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 9 Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Contributions subsequent to the measurement date	170,520	-
	\$ 1,034,048	\$ 17,000

The \$170,520 reported as 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 in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ended	
	June 30:	
	2017	\$ 224,206
	2018	224,206
	2019	224,206
	2020	173,801
	2021	109

Actuarial Assumptions

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

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

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

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 9 Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	100%	

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 9 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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School's proportionate share of the net pension liability	\$ 3,417,000	\$ 2,773,000	\$ 2,230,000

Pension Plan Fiduciary Net Position

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

Payables to the Plan as June 30, 2016 for contractually required contributions are as follows:

-	Employee deferral contributions	\$	3,406
-	Employer contributions	\$	81,414

Note 10 Retirement Plan

In addition to the PSERS plan, the School also provides an alternative plan for full-time employees that do not participate in PSERS through the Gettysburg Montessori Charter School 403(b) Plan. Non-PSERS employees participate from the date of employment, with a mandatory minimum contribution of 5%. The School will match the employees' contributions dollar for dollar up to 5% of their compensation. Contributions to the plan for the year ended June 30, 2016 totaled \$10,626, which consisted of \$5,313 contributed by employees and \$5,313 contributed by the School.

Note 11 Grants

The School participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Gettysburg Montessori Charter School

Notes to Financial Statements

June 30, 2016

Note 12 Risk Management

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks.

Note 13 Subsequent Events

In July 2016 the School entered into a financing arrangement with Centric Bank to purchase a property in Straban Township, Pennsylvania (the Township). The School moved to the new location in August 2016. The financing arrangements are as follows:

- Mortgage for \$1,120,000 maturing in July 2037; interest only at 5.35% payable through August 2017 followed by (48) monthly payments of \$7,660 including interest at 5.35%; followed by (192) payments of \$7,659 including interest at the prime rate plus 1.85%.
- Term loan for \$85,000 maturing in July 2027; interest only at 5.65% payable through August 2017 followed by (12) monthly payments of \$932 including interest at 5.5%; followed by (72) payments of \$932 including interest at the prime rate plus 2.15%.
- Line of credit for \$100,000 with interest payable at the prime rate plus 1.5%, subject to review on an annual basis.
- Letter of credit (LC) in favor of the Township for \$258,505 expiring in July 2017. The LC has been issued to ensure zoning for the project and work performed related to traffic signal changes is performed.

The mortgage is secured by the property and the assets of the School. The term loan and line of credit are secured by the assets of the School.

Debt service requirements of long-term debt are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ -	\$ 59,329	\$ 59,329
2018	35,598	57,890	93,488
2019	40,870	61,118	101,988
2020	43,107	58,607	101,714
2021	45,467	56,521	101,988
Thereafter	1,039,958	489,494	1,529,452
	\$ 1,205,000	\$ 782,959	\$ 1,987,959

Gettysburg Montessori Charter School
Notes to Financial Statements
June 30, 2016

Note 13 Subsequent Events (Continued)

In August 2016 the School entered into a leasing arrangement for (12) modular classroom units. The monthly lease payment is \$8,365. The School incurred approximately \$361,000 of one-time charges for installation, delivery, utilities and other fit-out costs.

Future operating lease commitments are as follows:

Year ending June 30,	Total
2017	\$ 83,650
2018	100,380
2019	100,380
2020	100,380
2021	100,380
Thereafter	16,730
	<hr/> \$ 501,900 <hr/>

Required Supplementary Information

**Gettysburg Montessori Charter School
Governmental Fund Budgetary Comparison Schedule
Year Ended June 30, 2016**

	Original/ Final Budget	Actual Revenues/ Expenditures	Variance With Budget
Revenues			
Local educational agency assistance	\$ 1,860,080	\$ 1,720,181	\$ (139,899)
Other sources	4,000	87,001	83,001
State sources	9,415	7,312	(2,103)
Federal sources	25,901	46,708	20,807
Total revenues	<u>1,899,396</u>	<u>1,861,202</u>	<u>(38,194)</u>
Expenditures			
Instruction	1,204,171	1,229,887	(25,716)
Support services	630,845	586,407	44,438
Noninstructional services	12,800	16,750	(3,950)
Capital Outlay	11,788	747,814	(736,026)
Debt service	100	-	100
Total expenditures	<u>1,859,704</u>	<u>2,580,858</u>	<u>(721,154)</u>
Expenditures in Excess of Revenues	39,692	(719,656)	(759,348)
Other Financing Sources (Uses)			
Interfund transfers in (out)	2,275	(3,768)	6,043
Net Change in Fund Balance	41,967	(723,424)	(765,391)
Fund Balance, Beginning	<u>486,534</u>	<u>486,534</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 528,501</u>	<u>\$ (236,890)</u>	<u>\$ (765,391)</u>

See accompanying notes to financial statements.

**Gettysburg Montessori Charter School
Schedule of the School's Proportionate Share of the Net
Pension Liability**

Last 10 Fiscal Years*

	6/30/2015	6/30/2014	6/30/2013
School's proportion of the net pension liability	0.0064%	0.0049%	0.0035%
School's proportionate share of the net pension liability	\$2,773,000	\$ 1,939,000	\$ 1,432,000
School's covered-employee payroll	\$ 823,187	\$ 627,869	\$ 442,766
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	336.86%	308.82%	323.42%
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%	54.49%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

**Gettysburg Montessori Charter School
Schedule of School Contributions
Pension Plan**

Last 10 Fiscal Years*

	6/30/2016	6/30/2015
Contractually required contribution	\$ 174,115	\$ 162,813
Contributions in relation to the contractually required contribution	<u>174,115</u>	<u>162,813</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 724,657	\$ 823,187
Contributions as a percentage of covered-employee payroll	24.03%	19.78%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complete, available information is presented.

**Gettysburg Montessori Charter School
Notes to Required Supplementary Information
Year Ended June 30, 2016**

Note 1 Changes in Benefit Terms

None.

Note 2 Changes in Assumptions

None.

Other Reports Required By Government Auditing Standards

**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
Gettysburg Montessori Charter School
Gettysburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the major fund of Gettysburg Montessori Charter School (the School) as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon, dated December 8, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

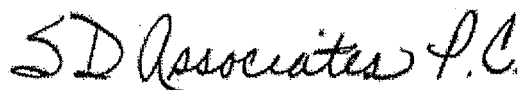
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "SD Associates P.C." in a cursive, slightly slanted font.

Certified Public Accountants
Elkins Park, Pennsylvania

December 8, 2016