



PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

FINANCIAL AND COMPLIANCE REPORT

Year Ended June 30, 2022



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BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*.....**

INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees
Pennsylvania STEAM Academy Charter School
Harrisburg, Pennsylvania**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Pennsylvania STEAM Academy Charter School, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Pennsylvania STEAM Academy Charter School's basic financial statements as listed in the table of contents.

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 each major fund of the Pennsylvania STEAM Academy Charter School, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pennsylvania STEAM Academy Charter School, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Principle

As described in Note 1 to the financial statements, effective July 1, 2021, the Pennsylvania STEAM Academy Charter School adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pennsylvania STEAM Academy Charter School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pennsylvania STEAM Academy Charter School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pennsylvania STEAM Academy Charter School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the general fund, and pension and other postemployment benefit information on pages 54 through 55, 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 February 14, 2023, on our consideration of the Pennsylvania STEAM Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pennsylvania STEAM Academy Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pennsylvania STEAM Academy Charter School's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
February 14, 2023**



**Pennsylvania STEAM Academy Charter School
Management's Discussion and Analysis
June 30, 2022**

The Management of Pennsylvania STEAM Academy Charter School (PA STEAM or the School) has prepared this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2022. The information presented here should be read and considered in conjunction with the School's financial statements.

Financial Highlights

PA STEAM obtained their Charter license effective July 1, 2021; therefore, no activity was presented for June 30, 2021. For fiscal year 2021-22, PA STEAM adopted a general fund budget in the amount of \$2,135,830. Actual general fund revenues were \$1,637,972. Actual general fund expenditures were \$2,150,248. This resulted in a general fund deficit from operations of \$512,276 for the School's first year of operations. The School also received other financing proceeds from the issuance of long-term debt and leases totaling \$648,848 during the 2021-22 school year. This additional revenue stream in conjunction with the general fund operational deficit of \$512,276 yielded a surplus of \$136,572. The beginning fund balance of \$8,963 in addition to the surplus of \$136,572 results in a total fund balance of \$145,535.

The School's general fund cash balance at June 30, 2022 was \$57,413. School receivables consist of \$252,850 from other Local Education Agencies, \$31,566 in federal receivables, \$2,760 in other receivables, and \$72,840 in interfund receivables from the Food Service fund. Prepaids include curriculum and other expenditures totaling \$61,127. Total cash, receivables, and prepaids amount to \$478,556.

General fund payables of \$164,054 and accrued expenditures of \$168,967 combine for total liabilities of \$333,021.

The School accounts for its food service operation in a proprietary fund, which reports functions presented as business-type activities in the government-wide financial statements. This was the School's first year of operations for food service. Total expenses were \$163,725 outpacing revenues of \$98,540, which impacts net position by (\$65,185).

Effective July 1, 2021, the Charter School adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. The adoption of this standard resulted in the reporting of right-to-use lease assets and a lease payable on the government-wide statements.

Government-wide net position decreased by \$179,839 in the current year, bringing the ending net position (deficit) to (\$375,692). Business-Type Activities net position decreased by \$65,185 in the current year. Total net position (deficit) of the school at June 30, 2022 was (\$440,877).

Overview of Financial Statements

This annual report consists of three parts: (1) management's discussion and analysis, (2) the basic financial statements, and (3) required supplementary information. The basic financial statements include two kinds of statements that present different views of the School.

This Management's Discussion and Analysis is intended to serve as an introduction to the School's basic financial statements. Government-Wide Financial Statements include a Statement of Net Position and Statement of Activities which are designed to provide readers with a short-term and long-term overview of the School's finances. The governmental fund statements indicate how basic services such as regular and special education were financed in the short-term as well as indicate future spending plans. Proprietary fund statements offer short-term and long-term financial information about the activities the School operates like a business, such as food services.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the governmental and fund financial statements. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School's budget for the year.

Figure 1 shows how the various parts of this annual report are arranged and related to one another.

Figure 1

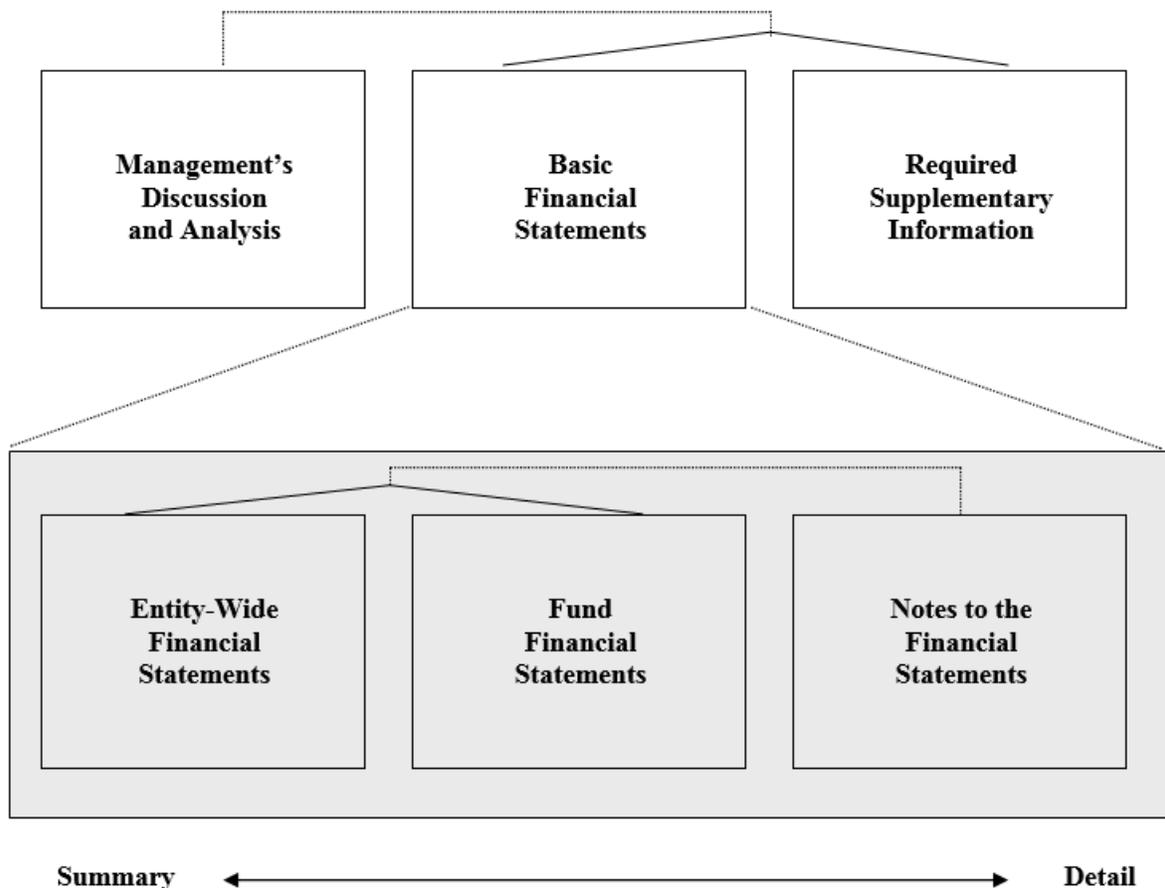


Figure 2 summarizes the major features of the School's financial statements, including the portion of School activity they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure 2

| <u>Major Features of the Government-Wide and Fund Financial Statements</u> | | | |
|--|--|---|--|
| | Government-wide Statements | Fund Financial Statements | |
| | | Governmental Fund | Proprietary Fund |
| Scope | Entire School (except fiduciary funds) | Activities of the School that are not proprietary or fiduciary, such as general operating and capital projects | Activities the School operates similar to private businesses, such as food services |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in net position • Statement of cash flow |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, current and noncurrent, and deferred inflows and outflows of resources | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or noncurrent liabilities included | All assets and liabilities, both financial and capital, current and noncurrent |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during the year, regardless of when cash is received or paid |

Government-Wide Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies, referred to as the accrual basis of accounting.

The Statement of Net Position presents all of the School's assets and liabilities, deferred inflows and outflows of resources with the difference reported as "net position." Over time, increases and decreases in net position measure whether the School's financial condition is improving or deteriorating.

The Statement of Activities presents information showing how the School's net position changed during the year. All changes in net position are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some events that will result in cash flows in future periods.

Both statements report two activities:

- **Governmental Activities** - contain the basic services of the School, such as regular and special education and operation and maintenance of plant services, as well as the tuition revenue and federal and state grants which generally finance these programs.
- **Business-Type Activities** - The School charges fees to cover the costs of business-type services it provides. For food service operations, these consist of charges for meal purchases, and federal and state subsidies.

Fund Financial Statements

The fund financial statements provide more detailed information about the major individual funds of the School. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to keep track of specific sources of funding and spending for particular programs. The School funds are divided into two categories: governmental and proprietary.

- **Governmental Fund** - Most of the School's basic services are included in the governmental fund that focuses on how money flows into and out of the fund and the balance left at the year-end for future spending. The governmental fund financial statements provide a detailed short-term view of the general operations and the basic services provided and provide some direction as to whether there will be more or fewer resources that can be spent in the near future to finance the School's programs.
- **Proprietary Fund (Enterprise)** - Services for which the School charges a fee are generally reported in the proprietary fund and utilize the accrual accounting method - the same method used by private sector businesses.

Government-Wide Financial Analysis

The Statement of Net Position contains information about what the School's assets, liabilities, deferred inflows and outflows of resources, and net position. Management has adopted Governmental Accounting Standards Board (GASB) Statement No. 34 which requires an analysis of current and prior periods. Figure 3 shows a summary of the School's net position for the year ended June 30, 2022 and 2021.

| Figure 3 Comparative Statement of Net Position Summary | Governmental Activities | | Business-Type Activities | | Total | |
|---|------------------------------------|-------------------------|-------------------------------------|--------------------|--------------------------|-------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Current assets | \$ 478,556 | \$ 8,963 | \$(57,255) | \$ - | \$ 421,301 | \$ 8,963 |
| Capital assets, net | 95,488 | - | - | - | 95,488 | - |
| Deferred outflows of resources | <u>245,089</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>245,089</u> | <u>-</u> |
| Total assets & deferred outflows | <u>\$ 819,133</u> | <u>\$ 8,963</u> | <u>\$(57,255)</u> | <u>\$ -</u> | <u>\$ 761,878</u> | <u>\$ 8,963</u> |
| Current liabilities | \$ 333,021 | \$ - | \$ 7,930 | \$ - | \$ 340,951 | \$ - |
| Accrued Interest | 24,316 | 14,816 | - | - | 24,316 | 14,816 |
| Noncurrent liabilities due within one year | 1,681 | - | - | - | 1,681 | - |
| Net notes payable & lease payable | <u>835,807</u> | <u>190,000</u> | <u>-</u> | <u>-</u> | <u>835,807</u> | <u>190,000</u> |
| Total liabilities | \$1,194,825 | \$ 204,816 | \$ 7,930 | \$ - | \$1,202,755 | \$204,816 |
| Net invested in capital assets | \$ (13,493) | \$ - | \$ - | \$ - | \$ (13,493) | \$ - |
| Unrestricted (deficit) | <u>(362,199)</u> | <u>(195,853)</u> | <u>(65,185)</u> | <u>-</u> | <u>(427,384)</u> | <u>(195,853)</u> |
| Total net position (deficit) | <u>(375,692)</u> | <u>(195,853)</u> | <u>(65,185)</u> | <u>-</u> | <u>(440,877)</u> | <u>(195,853)</u> |
| Total liabilities & net position | <u>\$ 819,133</u> | <u>\$ 8,963</u> | <u>\$(57,255)</u> | <u>\$ -</u> | <u>\$ 761,878</u> | <u>\$ 8,963</u> |

The increase in assets, liabilities, and net position are a result of moving from the start up phase of the School before receiving an awarded charter to a full scale educational operation during the 2021-22 school year, the first year of the five year charter.

Government-Wide Financial Analysis - continued

The results of operations for the fiscal year ended June 30, 2022 (the first year of operations) as a whole are reported in the Statement of Activities. Figure 4 is a summary of changes in net position for the year ended June 30, 2022.

Revenues are defined as either program or general revenues. Program revenues are generated by the services themselves or provided externally for use in a particular function and are categorized as charges for services, operating grants and contributions, or capital grants and contributions. General revenues include investment earnings and other revenue that does not meet the criteria for program revenue. Expenses are categorized by function - instruction, support services, and non-instructional services.

| Figure 4 Comparative Statement of Activities Summary | Governmental Activities | Business- Type Activities | Total |
|---|------------------------------------|--|---------------------|
| Revenues | | | |
| Program Revenues | | | |
| Local educational agency assistance | \$ 1,535,885 | \$ - | \$ 1,535,885 |
| Operating grants & contributions | 98,250 | 98,540 | 196,790 |
| General Revenues | <u>3,837</u> | <u>-</u> | <u>3,837</u> |
| Total revenues | 1,637,972 | 98,540 | 1,736,512 |
| Expenditures | | | |
| Instruction | 880,100 | - | 880,100 |
| Support services | 908,783 | - | 908,783 |
| Non-instructional services | 406 | 163,725 | 164,131 |
| Interest on long-term debt | <u>28,522</u> | <u>-</u> | <u>28,522</u> |
| Total expenditures | <u>1,817,811</u> | <u>163,725</u> | <u>1,981,536</u> |
| Change in net position | (179,839) | (65,185) | (245,024) |
| Net position (deficit), beginning | <u>(195,853)</u> | <u>-</u> | <u>(195,853)</u> |
| Net position (deficit), ending | <u>\$ (375,692)</u> | <u>\$ (65,185)</u> | <u>\$ (440,877)</u> |

The School's revenues are predominately local school district funds based on student enrollment in addition to both grants and contributions and miscellaneous general revenues. For the year ended June 30, 2022, the School's total revenues of \$1,736,512 and expenditures of \$1,981,536 resulted in a decrease in net position at the end of the year by \$245,024.

| Figure 5 Net Cost (Income) of Governmental Activities Fiscal Year Ended June 30, 2022 | Total Cost of Services | Net Cost (Income) of Services |
|--|-----------------------------------|--|
| | | |
| Instruction | \$ 880,100 | \$ 48,548 |
| Instructional student support | 83,275 | 9,750 |
| Administrative and financial support services | 435,703 | (3,744) |
| Operation and maintenance of plant services | 389,805 | 100,489 |
| Other | 28,928 | 28,633 |
| Total | <u>\$ 1,817,811</u> | <u>\$ 183,676</u> |

| Figure 6 Net Cost of Business-Type Activities Fiscal Year Ended June 30, 2022 | Total Cost of Services | Net Cost of Services |
|--|-----------------------------------|---------------------------------|
| | | |
| Food Services | \$ 163,725 | \$ 65,185 |

Governmental Fund Financial Analysis

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 reported an ending fund balance of \$145,535. Of the ending fund balance, \$61,127 is non-spendable and \$84,408 is unassigned.

Budget Variations - General Fund

The actual revenues came up short to budgeted amounts by \$100,588 due to the first year of operation. However, student enrollment has increased since the end of the 2021-2022 school year.

Actual expenditures, excluding other financing uses, exceeded budgeted amounts by \$14,418 due to an increase in supply costs as well as English as a Second Language (ESL) support services.

Capital Assets

As of June 30, 2022, the School's investment in capital assets for its governmental activities totaled \$95,488 (net of accumulated depreciation and amortization). This investment in capital assets exclusively consists of equipment & furniture. Additional information on the School's capital assets can be found in Note 6 of this report.

Long-Term Debt

Outstanding long-term debt totaling \$837,488 as of June 30, 2022, consists of notes payable of \$833,758 with varying maturities through July 2026 and leases payable of \$3,730. Additional information on the School's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The School's primary source of revenue, tuitions received from local school districts, are expected to continue to grow with the addition of two classes in each Kindergarten and Grade 3 in the 2022-23 school year. Economic factors affecting the School's budget will include the cost of staffing to our increased enrollment levels, the increased cost of health insurance, the continual increase of PSERS employer contribution rates, and potential State budget cuts. Fluctuations in future enrollment and staffing changes could also financially impact the School.

During 2022-23 school year and going forward, the School will continue investing in security enhancements, curriculum, and educational technology. The School has also invested in the purchase of a portion of its current facility for \$8,000,000. The School entered into agreement with Upper Dauphin Industrial Development Authority for the issuance of two bonds, Series A \$10,765,000 and Series B \$465,000. The proceeds of these bonds along with other available funds will be used to finance the acquisition of this facility along with furniture, fixtures, and equipment including certain capital improvements. Additional information on this subsequent event can be found in Note 15.

Furthermore, the School was awarded a number of significant grants this past year, to be utilized in the 2022-23 school year and beyond. First, the School received a three year \$1.5 million federally funded Charter School Development Grant. This grant will be used for (among other things) curriculum expansion, building security enhancements, and furniture and other equipment purchases as we expand the school into additional grades. Second, the School received a \$300,000 state funded grant through the state legislature, which will be used for technology and other general operating expenses. Finally, the School received a state funded \$1.3 million RCAP grant, which will be used to construct a physical education and recreational space on the building roof, providing our students a unique educational opportunity in a downtown urban environment. These grant awards will strengthen the financial position of the School as well as enhance our ability to provide an exceptional educational program in our market.

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, The Pennsylvania STEAM Academy Charter School, 1500 N 3rd Street, Harrisburg, PA 17102.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2022

| | Governmental Activities | Business- Type Activities | Total |
|---|----------------------------|---------------------------------|---------------------|
| ASSETS | | | |
| Cash | \$ 57,413 | \$ - | \$ 57,413 |
| Internal balances | 72,840 | (72,840) | - |
| Intergovernmental receivables | 284,416 | 15,585 | 300,001 |
| Other receivables | 2,760 | - | 2,760 |
| Prepaid expenses | 61,127 | - | 61,127 |
| Capital assets not being depreciated | 10,000 | - | 10,000 |
| Capital assets, net of accumulated depreciation | 81,740 | - | 81,740 |
| Right-to-use lease assets, net of accumulated amortization | 3,748 | - | 3,748 |
| | <u>574,044</u> | <u>(57,255)</u> | <u>516,789</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows of resources for pension | 239,453 | - | 239,453 |
| Deferred outflows of resources for other postemployment benefits | 5,636 | - | 5,636 |
| | <u>245,089</u> | <u>-</u> | <u>245,089</u> |
| LIABILITIES | | | |
| Accounts payable | 164,054 | 7,930 | 171,984 |
| Accrued salaries and benefits | 155,549 | - | 155,549 |
| Accrued interest | 24,316 | - | 24,316 |
| Unearned revenues | 13,418 | - | 13,418 |
| Noncurrent liabilities due within one year | 1,681 | - | 1,681 |
| Noncurrent liabilities: | | | |
| Notes payable, net | 833,758 | - | 833,758 |
| Lease payable, net | 2,049 | - | 2,049 |
| | <u>1,194,825</u> | <u>7,930</u> | <u>1,202,755</u> |
| NET POSITION | | | |
| Net investment in capital assets | (13,493) | - | (13,493) |
| Unrestricted (deficit) | (362,199) | (65,185) | (427,384) |
| | <u>(375,692)</u> | <u>(65,185)</u> | <u>(440,877)</u> |
| TOTAL NET POSITION (DEFICIT) | <u>\$ (375,692)</u> | <u>\$ (65,185)</u> | <u>\$ (440,877)</u> |

See accompanying notes.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2022

| Functions/Programs | Expenses | Program Revenue | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Instruction | \$ 880,100 | \$ 770,492 | \$ 61,060 | \$ - | \$ (48,548) | \$ - | \$ (48,548) |
| Instructional student support | 83,275 | 73,525 | - | - | (9,750) | - | (9,750) |
| Administrative and financial support services | 435,703 | 405,322 | 34,125 | - | 3,744 | - | 3,744 |
| Operation and maintenance of plant services | 389,805 | 286,251 | 3,065 | - | (100,489) | - | (100,489) |
| Community services | 406 | 295 | - | - | (111) | - | (111) |
| Interest on long-term debt | 28,522 | - | - | - | (28,522) | - | (28,522) |
| Total Governmental Activities | 1,817,811 | 1,535,885 | 98,250 | - | (183,676) | - | (183,676) |
| Business-Type Activities: | | | | | | | |
| Food services | 163,725 | - | 98,540 | - | - | (65,185) | (65,185) |
| Total Primary Government | \$ 1,981,536 | \$ 1,535,885 | \$ 196,790 | \$ - | (183,676) | (65,185) | (248,861) |
| General Revenues | | | | | | | |
| Investment earnings | | | | | 185 | - | 185 |
| Miscellaneous income | | | | | 3,652 | - | 3,652 |
| Total General Revenues | | | | | 3,837 | - | 3,837 |
| Change in Net Position | | | | | (179,839) | (65,185) | (245,024) |
| Net Position (Deficit) - Beginning of Year | | | | | (195,853) | - | (195,853) |
| Net Position (Deficit) - End of Year | | | | | \$ (375,692) | \$ (65,185) | \$ (440,877) |

See accompanying notes.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2022

| | <u>General Fund</u> |
|---|--------------------------|
| ASSETS | |
| Cash | \$ 57,413 |
| Interfund receivables | 72,840 |
| Intergovernmental receivables | 284,416 |
| Other receivables | 2,760 |
| Prepaid expenditures | <u>61,127</u> |
| TOTAL ASSETS | <u><u>\$ 478,556</u></u> |
| LIABILITIES AND FUND BALANCE | |
| LIABILITIES | |
| Accounts payable | \$ 164,054 |
| Accrued salaries and benefits | 155,549 |
| Unearned revenues | <u>13,418</u> |
| TOTAL LIABILITIES | 333,021 |
| FUND BALANCE | |
| Nonspendable | 61,127 |
| Unassigned | <u>84,408</u> |
| TOTAL FUND BALANCE | <u>145,535</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u><u>\$ 478,556</u></u> |

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

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

June 30, 2022

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

| | | |
|---|-----------------|--------------------------------|
| TOTAL FUND BALANCE - GOVERNMENTAL FUND | \$ | 145,535 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$110,441 and the accumulated depreciation and amortization is \$14,953. | | 95,488 |
| Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of: | | |
| Notes payable | \$ (833,758) | |
| Lease payable | (3,730) | |
| Accrued interest on bonds | <u>(24,316)</u> | (861,804) |
| The net pension liability and related deferred outflows and inflows of resources for pensions are not reflected on the fund financial statements. | | 239,453 |
| The net other postemployment benefit liabilities and related deferred outflows and inflows of resources for other postemployment benefits are not reflected on the fund financial statements. | | <u>5,636</u> |
| TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES | \$ | <u><u>(375,692)</u></u> |

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUND

For the Year Ended June 30, 2022

| | General Fund |
|--|--------------|
| REVENUES | |
| Local sources | \$ 1,606,406 |
| Federal sources | 31,566 |
| TOTAL REVENUES | 1,637,972 |
| EXPENDITURES | |
| Current: | |
| Instructional services | 1,059,312 |
| Support services | 1,060,148 |
| Operation of noninstructional services | 406 |
| Capital outlay | 10,000 |
| Debt service: | |
| Principal | 1,360 |
| Interest | 19,022 |
| TOTAL EXPENDITURES | 2,150,248 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (512,276) |
| OTHER FINANCING SOURCES (USES) | |
| Proceeds from issuance of note payable | 643,758 |
| Proceeds from issuance of leases | 5,090 |
| TOTAL OTHER FINANCING SOURCES (USES) | 648,848 |
| NET CHANGE IN FUND BALANCE | 136,572 |
| FUND BALANCE - BEGINNING OF YEAR | 8,963 |
| FUND BALANCE - END OF YEAR | \$ 145,535 |

See accompanying notes.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

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

For the Year Ended June 30, 2022

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

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ 136,572

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.

| | | |
|---|-----------------|--------|
| Capital outlays | \$ 110,441 | |
| Less: depreciation and amortization expense | <u>(14,953)</u> | 95,488 |

Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

| | | |
|--------------------------|--------------|-----------|
| Issuance of note payable | (643,758) | |
| Issuance of leases | (5,090) | |
| Repayment of lease | <u>1,360</u> | (647,488) |

Interest expense incurred on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. (9,500)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. The difference in the amount incurred and amount paid of these activities is:

| | | |
|---|--------------|----------------|
| Net pension liability and related deferred outflows and inflows | 239,453 | |
| Net OPEB liability and related deferred outflows and inflows | <u>5,636</u> | <u>245,089</u> |

CHANGE IN NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (179,839)

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2022

| | <u>Enterprise Fund</u> <u>Food Service</u> |
|-------------------------------------|---|
| ASSETS | |
| CURRENT ASSETS | |
| Intergovernmental receivables | \$ 15,585 |
| TOTAL ASSETS | <u>15,585</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Interfund payable | 72,840 |
| Accounts payable | <u>7,930</u> |
| TOTAL LIABILITIES | <u>80,770</u> |
| NET POSITION | |
| Unrestricted (deficit) | <u>(65,185)</u> |
| TOTAL NET POSITION (DEFICIT) | <u><u>\$ (65,185)</u></u> |

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND

For the Year Ended June 30, 2022

| | Enterprise Fund Food Service |
|---|---------------------------------|
| OPERATING EXPENSES | |
| Contracted services | \$ 163,225 |
| Other operating expenses | 500 |
| TOTAL OPERATING EXPENSES | 163,725 |
| OPERATING LOSS | (163,725) |
| NONOPERATING REVENUES | |
| State sources | 3,047 |
| Federal sources | 95,493 |
| TOTAL NONOPERATING REVENUES | 98,540 |
| CHANGE IN NET POSITION | (65,185) |
| NET POSITION (DEFICIT) - BEGINNING OF YEAR | - |
| NET POSITION (DEFICIT) - END OF YEAR | \$ (65,185) |

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

For the Year Ended June 30, 2022

| | <u>Enterprise Fund</u> <u>Food Service</u> |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Payments to suppliers for goods and services | \$ (82,955) |
| | <hr/> |
| NET CASH USED FOR OPERATING ACTIVITIES | (82,955) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State sources | 2,532 |
| Federal sources | 80,423 |
| | <hr/> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 82,955 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <hr/> - |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <hr/> <u>\$ -</u> |
| <u>Reconciliation of Operating Loss to Net Cash</u> | |
| <u>Used For Operating Activities:</u> | |
| Operating loss | \$ (163,725) |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | |
| Interfund payables | 72,840 |
| Accounts payable | 7,930 |
| | <hr/> |
| Total adjustments | 80,770 |
| | <hr/> |
| NET CASH USED FOR OPERATING ACTIVITIES | <u>\$ (82,955)</u> |

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

Pennsylvania STEAM Academy Charter School (the “Charter School” or “School”) is a nonprofit corporation established pursuant to the Pennsylvania Nonprofit Corporation Law of 1988. The Charter School is chartered directly through the Pennsylvania Department of Education. The Charter commenced on July 1, 2021, and expires June 30, 2026.

The Charter School is located in Harrisburg, Pennsylvania, and was established to provide a high-quality, integrated science, technology, engineering, arts, and mathematics (STEAM) elementary school that incorporates Problem Based Learning (PBL), through sustained partnerships with higher education, after school organizations, non-profit community programs, local businesses and government agencies. The Charter School will achieve its goals and objectives in accordance with section 1714 of the Charter School Law. The Charter School will serve children in grades kindergarten to sixth grade phased in over a five year period starting with kindergarten - second grade for the year ended June 30, 2022.

The Charter School is governed by a board of trustees. The board shall be composed of not less than five and not more than nine directors, elected to serve a term of three years. Trustees may hold no more than three consecutive three-year terms, and no more than five terms in total. The Head of the School shall also be an ex officio, non-voting member of the board.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

A. Reporting Entity - continued

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

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

B. Basis of Presentation - Government-Wide Financial Statements

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are the contributions made to any component units from the Charter School's governmental funds and transfers between governmental funds and business-type and fiduciary funds. Elimination of these contributions would distort the direct costs and program revenues reported for the various functions concerned.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Basis of Presentation - Fund Financial Statements

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

The Charter School Reports the Following Major Governmental Fund:

General Fund: The general fund is the general operating fund of the Charter School. This fund is charged with all costs of operating the Charter School for which a separate fund has not been established.

The Charter School has the Following Major Enterprise Fund:

Food Service Fund: This fund accounts for all revenues, food purchases, and costs and expenses for the food service program. The food service fund is the Charter School's only major enterprise fund where the intent of the governing body is that the costs of providing food services are covered by user charges and subsidies received.

The Charter School does not currently have any fiduciary funds.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as interfund receivables and payables. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as transfers in the business-type activities column.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Measurement Focus and Basis of Accounting

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 (food service). Operating expenses for proprietary funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Federal and state subsidiaries are considered non-operating revenues as no exchange transaction occurs.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Charter School considers revenues to be available if they are collected by October 31, 2022. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. If time eligibility requirements are not met, deferred inflows of resources would be recorded. All other revenue items are considered to be measurable and available only when cash is received by the Charter School.

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

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations, except unexpended grant appropriations and encumbrances, lapse at fiscal year-end. The Charter School's 2021-2022 budget was prepared and approved by the board of directors prior to submitting the budget to the Pennsylvania Department of Education.

F. Financial Position

1. Cash and Cash Equivalents

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

2. Interfund Transactions

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "interfund receivables/payables." Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Receivables

The intergovernmental receivables are amounts due from local school districts, the Pennsylvania Department of Education (PDE), and other governmental entities. Management evaluates the collectable nature of outstanding receivables and records an allowance if needed.

4. Prepaid Items

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

5. Capital Assets, Depreciation, and Amortization

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

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

5. Capital Assets, Depreciation, and Amortization - continued

The Charter School generally capitalizes assets with a cost of \$1,500 or more as purchase and construction outlays occur. Assets purchased or constructed with long-term debt may be capitalized regardless of the threshold established. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Construction in progress is stated at cost and consists primarily of costs incurred on construction projects. No provision for depreciation is made on construction in progress until the assets are complete and placed into service. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Right-to-use lease assets are reported when a qualifying lease liability is incurred.

Estimated useful lives for depreciable assets are as follows:

| <u>Assets</u> | <u>Years</u> |
|---------------------------|--------------|
| Building and improvements | 6 - 27.5 |
| Furniture and equipment | 3 - 7 |
| Right-to-use lease assets | 3 |

6. Valuation of Long-Lived Assets

Long-lived assets to be held and used are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In general, any long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. The Charter School periodically evaluates the recoverability of its long-lived assets, including real estate and improvements and deferred costs, using objective methodologies. Such methodologies include evaluations based on cash flows generated by the underlying assets or other determinants of fair value. None of the Charter School's long-lived assets were considered to be impaired as of June 30, 2022.

7. Unearned Revenues

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

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activity columns in the statement of net position. This same treatment also applies to proprietary fund financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Other bond issuance costs are expensed at the time the debt is issued.

In the fund financial statements, governmental fund types recognize the face amount of debt issued or incurred and any original issue premiums or discounts are reported as other financing sources and uses. Issuance costs and underwriter's discount, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Leases

Pennsylvania STEAM Academy Charter School is a lessee for a noncancellable lease of equipment. The Charter School recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. Pennsylvania STEAM Academy Charter School recognizes lease liabilities with an initial, individual value of \$2,500 or more.

At the commencement of a lease, the Charter School initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Charter School determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Charter School uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Charter School generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Also included within the lease term are any qualifying lease renewals or early termination options that the Charter School is reasonably certain to exercise or not exercise. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Charter School is reasonably certain to exercise.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

9. Leases - continued

The Charter School monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with noncurrent liabilities on the statement of net position.

10. Pension

The Charter School contributes to the Public School Employees Retirement System (PSERS), a cost-sharing multiple-employer defined benefit pension plan. The Charter School accounts for the plan under the provisions of GASB Statement No. 68, which establishes standards for the measurement, recognition, and display of pension expense and related liabilities, deferred outflows and deferred inflows of resources related to pension, certain required supplementary information, and note disclosures.

For the purpose of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension 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 refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Since the year ended June 30, 2022 is the first year with PSERS eligibility, the only activity reported is employer contributions. Once the Charter School's measurement date is reached, a liability and related deferrals will be reported.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

11. Other Postemployment Benefits (OPEB)

The Charter School's other postemployment benefit plan is accounted for under the provisions of GASB Statement No. 75, which establishes standards for the measurement, recognition, and display of other postemployment benefit expense and related liabilities, deferred outflows and deferred inflows of resources related to other postemployment benefits, certain required supplementary information, and note disclosures. The Charter School provides OPEB under the following plan:

PSERS OPEB Plan

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the *PSERS and additions to/deductions from PSERS' fiduciary net position have been determined on the same basis as they are reported by PSERS*. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Since the year ended June 30, 2022 is the first year with PSERS eligibility, the only activity reported is employer contributions. Once the Charter School's measurement date is reached, a liability and related deferrals will be reported.

12. Deferred Outflows/Inflows of Resources

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

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

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

12. Deferred Outflows/Inflows of Resources - continued

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

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

13. Net Position

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

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

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Financial Position - continued

14. Fund Balance Policies and Flow Assumptions

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

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

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

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

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The Charter School's policy states in circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expensed is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance and unassigned fund balance.

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

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Use of Estimates

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

H. Adoption of Accounting Standard

During the year ended June 30, 2022, the Charter School adopted new accounting guidance GASB Statement No. 87, retroactive to July 1, 2021. GASB Statement No. 87 was issued to recognize certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The adoption of this standard resulted in no restatement to beginning net position or fund balance. The adoption did result in the reporting of a right-to-use lease asset of \$5,190 and a related liability of \$5,090.

Effective July 1, 2021, the Charter School adopted new accounting standard guidance GASB Statement No. 89 related to accounting requirements for interest expenses incurred before the end of a construction period. Under this statement, interest expenses incurred before the end of a construction period must be recognized as an expense in the period in which the expenses are incurred for financial statements prepared using the economic resources measurement focus. The adoption of this standard resulted in no restatement to beginning net position.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Compliance with Finance Related Legal and Contractual Provisions

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

B. Deficit Fund Balance or Net Position of Individual Funds

Deficit Net Position - Proprietary Fund (Food Service Fund)

For the year ended June 30, 2022, excess of expenditures over revenues created a deficiency in net position at year-end of \$65,185. The Charter School will fund this deficiency in future years through excess subsidiary revenue or transfers from the General Fund.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 3 - CASH

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

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Charter School does not have a policy for custodial credit risk. As of June 30, 2022, the carrying amount of the Charter School's deposits was \$57,413 and the bank balance was \$160,356. The entire bank balance of \$160,356 was covered by federal depository insurance.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

The following schedule represents intergovernmental receivables at June 30, 2022:

| | <u>General Fund</u> | <u>Enterprise Food Service</u> |
|--|-------------------------|------------------------------------|
| Local Education Agencies | \$ 252,850 | \$ - |
| Commonwealth of Pennsylvania: | | |
| National School Breakfast and Lunch Program | - | 515 |
| Federal Subsidies: | | |
| Title I Grants to Local Educational Agencies | 31,566 | - |
| COVID-19 - National School Breakfast and Lunch Program | - | 15,070 |
| | <u> </u> | <u> </u> |
| Total intergovernmental receivables | <u>\$ 284,416</u> | <u>\$ 15,585</u> |

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund receivables and payables at June 30, 2022:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|---------------------------|----------------------------------|-------------------------------|
| General Fund | \$ 72,840 | \$ - |
| Enterprise - Food Service | <u>-</u> | <u>72,840</u> |
| | <u>\$ 72,840</u> | <u>\$ 72,840</u> |

Interfund receivables and payables exist as a result of a time lag between dates when payments between funds are made. Funds will be repaid as cash is available, which may be longer than one year.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 6 - CHANGES IN CAPITAL ASSETS

Capital assets balances and activity for the year ended June 30, 2022, were as follows:

| | Beginning Balance | Increase | Reclass/ Decrease | Ending Balance |
|---|----------------------|------------------|----------------------|-------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ - | \$ 10,000 | \$ - | \$ 10,000 |
| Totals not being depreciated | - | 10,000 | - | 10,000 |
| Capital assets being depreciated: | | | | |
| Furniture and equipment | - | 95,251 | - | 95,251 |
| Totals being depreciated | - | 95,251 | - | 95,251 |
| Less accumulated depreciation for: | | | | |
| Furniture and equipment | - | 13,511 | - | 13,511 |
| Total accumulated depreciation | - | 13,511 | - | 13,511 |
| TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET | - | 81,740 | - | 81,740 |
| Right-to-use lease assets being amortized: | | | | |
| Equipment | - | 5,190 | - | 5,190 |
| Less accumulated amortization for: | | | | |
| Equipment | - | 1,442 | - | 1,442 |
| TOTAL RIGHT-TO-USE LEASE ASSETS BEING AMORTIZED, NET | - | 3,748 | - | 3,748 |
| GOVERNMENTAL ACTIVITIES, CAPITAL ASSETS, NET | \$ - | \$ 95,488 | \$ - | \$ 95,488 |

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

| | |
|--|------------------|
| Administrative and financial support services | \$ 13,511 |
| Operation and maintenance of plant services | 1,442 |
| TOTAL DEPRECIATION AND AMORTIZATION EXPENSE - GOVERNMENTAL ACTIVITIES | \$ 14,953 |

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 7 - LONG-TERM LIABILITIES

The Charter School has issued direct borrowings to fund start-up and capital expenditures. Notes payable at June 30, 2022 were as follows:

Non-Revolving Time Note

The Charter School has a non-revolving time note with a financial institution for up to \$800,000 to fund capital expenditures and other working capital needs. Principal advances are permitted only through the first 24 months. Interest is payable monthly at a variable rate equal to the Floating Wall Street Journal prime rate plus 0.50%, with a floor of 4.00%. The rate on June 30, 2022, was 4.50%. The loan matures in 5 years (July 2026), with principal repayments due annually in years 3-5. The loan is secured by a first lien on all business assets. The note was refinanced subsequent to year-end (see Note 15).

\$ 643,758

Promissory Note

The Charter School is liable for a promissory note dated October 19, 2018, and amended on August 9, 2022, in the original principal amount of \$150,000, with an additional \$100,000 available in year two of the agreement. Principal and accrued interest is due in full on June 30, 2024, or at the termination of the services agreement between Commonwealth Charter Academy Charter School and the Charter School, if sooner. Interest accrues at a rate of 5.00% per annum. The proceeds of this note were used to fund start-up expenses of the Charter School.

190,000

Total notes payable \$ 833,758

The future debt service requirements for the Charter School's notes payable are as follows for the years ending June 30th:

| | Non-Revolving Time Note | Promissory Note | Total | |
|-----------------|----------------------------|--------------------|-------------------|-------------------|
| | <u>Principal</u> | <u>Principal</u> | <u>Principal</u> | <u>Interest*</u> |
| 2023 | \$ - | \$ - | \$ - | \$ 36,000 |
| 2024 | 250,000 | 190,000 | 440,000 | 73,691 |
| 2025 | 250,000 | - | 250,000 | 19,125 |
| 2026 | 300,000 | - | 300,000 | 6,750 |
| Less: Not Drawn | <u>(156,242)</u> | <u>-</u> | <u>(156,242)</u> | <u>-</u> |
| | <u>\$ 643,758</u> | <u>\$ 190,000</u> | <u>\$ 833,758</u> | <u>\$ 135,566</u> |

*Interest on variable rate debt was calculated at 4.50%, which is the rate in effect at June 30, 2022.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 7 - LONG-TERM LIABILITIES - CONTINUED

Leases

The Charter School has entered into a lease agreement for copiers. The lease has a termination date of June 2025. The lease includes monthly payments of principal and interest at a rate of 4.00%.

Future lease maturities as of June 30 are as follows:

| | Principal | Interest | Total |
|------|-----------|----------|----------|
| 2023 | \$ 1,681 | \$ 119 | \$ 1,800 |
| 2024 | 1,750 | 50 | 1,800 |
| 2025 | 299 | 1 | 300 |
| | \$ 3,730 | \$ 170 | \$ 3,900 |

Long-term liability balances and activity for the year ended June 30, 2022, are as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|----------------------|------------|------------|-------------------|-----------------------------------|
| Governmental Activities | | | | | |
| Direct borrowings | \$ 190,000 | \$ 643,758 | \$ - | \$ 833,758 | \$ - |
| Lease payable | - | 5,090 | 1,360 | 3,730 | 1,681 |
| Total governmental long-term liabilities | \$ 190,000 | \$ 648,848 | \$ 1,360 | \$ 837,488 | \$ 1,681 |

Total interest paid during the year ended June 30, 2022, was \$19,022. Payments on direct borrowings and lease payable are made by the general fund.

In the event of default on direct borrowings, all outstanding principal outstanding and interest accrued becomes currently due.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - EMPLOYEE RETIREMENT PLANS

Employee Defined Benefit Pension Plan

General Information About the Pension Plan

Plan Description

PSERS is a governmental, cost-sharing, multiple-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania under Title 24, Part IV of the Pennsylvania General Assembly. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.pa.gov.

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of 5 years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

Act 5 of 2017 (Act 5) introduced a hybrid benefit plan with two membership classes and a separate defined contribution plan for individuals who become new members on or after July 1, 2019. Act 5 created two new hybrid membership classes, Membership class T-G (Class T-G) and Membership Class T-H (Class T-H) and the separate defined contribution membership class, Membership Class DC (Class DC).

Class T-G and Class T-H members who qualify for a defined benefit normal retirement benefit must work until age 67 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 97 with a minimum 35 years of service.

Defined benefits for T-G and T-H are 1.25% or 1.00%, 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. A member's right to a defined benefit is vested in 10 years.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Benefits Provided - continued

Participants are eligible for disability retirement benefits after completion of 5 years of credited service. Such benefits are generally equal to 2.0% or 2.5%, depending upon membership class, of the member’s final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least 1 year of credited service (age 65 with at least 3 years of credited service for Class T-E and Class T-F members) or who has at least 5 years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

The contribution policy is set by state statute and requires contributions by active members, employers, and the Commonwealth of Pennsylvania. The contribution rates based on qualified member compensation for virtually all members are presented below:

Member Contributions:

| Member Contribution Rates | | | | |
|----------------------------------|------------------------------------|---|-----------------------------|--------------------------------|
| Membership Class | Continuous Employment Since | Defined Benefit (DB) Contribution Rate | DC Contribution Rate | Total Contribution Rate |
| T-C | Prior to July 22, 1983 | 5.25% | N/A | 5.25% |
| | | | | 6.25% |
| T-C | On or after July 22, 1983 | 6.25% | N/A | 6.25% |
| T-D | Prior to July 22, 1983 | 6.50% | N/A | 6.50% |
| | | | | 7.50% |
| T-D | On or after July 22, 1983 | 7.50% | N/A | 7.50% |
| T-E | On or after July 1, 2011 | 7.50% base rate with shared risk provision | N/A | 7.50% |
| T-F | On or after July 1, 2011 | 10.30% base rate with shared risk provision | N/A | 10.30% |
| T-G | On or after July 1, 2019 | 5.50% base rate with shared risk provision | 2.75% | 8.25% |
| T-H | On or after July 1, 2019 | 4.50% base rate with shared risk provision | 3.00% | 7.50% |
| DC | On or after July 1, 2019 | N/A | 7.50% | 7.50% |

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

General Information About the Pension Plan - continued

Contributions - continued

| Shared Risk Program Summary | | | | |
|-----------------------------|--------------------------------|-----------------------|---------|---------|
| Membership Class | Defined Benefit (DB) Base Rate | Shared Risk Increment | Minimum | Maximum |
| T-E | 7.50% | +/- 0.50% | 5.50% | 9.50% |
| T-F | 10.30% | +/- 0.50% | 8.30% | 12.50% |
| T-G | 5.50% | +/- 0.75% | 2.50% | 8.50% |
| T-H | 4.50% | +/- 0.75% | 1.50% | 7.50% |

Employer Contributions:

The Charter School's contractually required contribution rate for the fiscal year ended June 30, 2022, was 33.99% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Charter School were \$239,453 for the year ended June 30, 2022. In addition, the Charter School's contribution to the defined contribution plan was \$1,057 for the year ended June 30, 2022.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

The net pension liability was measured as of June 30, 2021, 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, 2020 to June 30, 2021. Because the Charter School did not join the plan until July 2021, there is no allocation of the plan's net pension liability to the Charter School at the current measurement date.

At June 30, 2022, the Charter 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> |
|---|---|--|
| Contributions made subsequent to the measurement date | \$ 239,453 | \$ - |
| | <u>\$ 239,453</u> | <u>\$ -</u> |

The \$239,453 reported as deferred outflows of resources resulting from the Charter School pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023.

Actuarial Assumptions

The total pension liability at June 30, 2021, was determined by rolling forward the System's total pension liability at June 30, 2020 to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 7.00%, includes inflation at 2.50%.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 improvement scale.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Actuarial Assumptions - continued

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study that was performed for the five year period ended June 30, 2020.

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 PSERS Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2021, is:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Global public equity | 27.0% | 5.2% |
| Private equity | 12.0% | 7.3% |
| Fixed income | 35.0% | 1.8% |
| Commodities | 10.0% | 2.0% |
| Absolute return | 8.0% | 3.1% |
| Infrastructure/MLPs | 8.0% | 5.1% |
| Real estate | 10.0% | 4.7% |
| Cash | 3.0% | 0.1% |
| Leverage | (13.0%) | 0.1% |
| | 100.0% | |

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 8 - EMPLOYEE RETIREMENT PLANS - CONTINUED

Employee Defined Benefit Pension Plan - continued

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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.

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2022, the Charter School had an accrued balance due to PSERS, including contributions related to pension and OPEB, of \$59,367. This amount represents the Charter School's contractually obligated contributions for wages earned in April 2022 through June 2022.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN

Employee Defined Benefit Other Postemployment Benefits Plan

The Charter School has other postemployment benefits (OPEB) under a cost-sharing, multiple employer, employee defined benefit other postemployment benefits plan administered through PSERS (PSERS OPEB Plan).

PSERS OPEB Plan

General Information About the PSERS OPEB Plan

Health Insurance Premium Assistance Program

PSERS provides Premium Assistance which is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP). As of June 30, 2021 there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

Retirees of the System can participate in the Premium Assistance Program if they satisfy the following criteria:

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

Pension Plan Description

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

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

PSERS OPEB Plan - continued

General Information About the PSERS OPEB Plan - continued

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2021, there were no assumed future benefit increases to participating eligible retirees.

Contributions

The contribution policy is set by state statute. A portion of each employer's contribution is set aside for premium assistance. The Charter School's contractually required contribution rate for the fiscal year ended June 30, 2022, was 0.80% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the Charter School were \$5,636 for the year ended June 30, 2022.

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2020 to June 30, 2021. Because the Charter School did not join the Plan until July 2021, there is no allocation of the Plan's OPEB Liability to the Charter School at the current measurement date.

At June 30, 2022, the Charter School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Contributions made subsequent to the measurement date | \$ 5,636 | \$ - |
| | <u>\$ 5,636</u> | <u>\$ -</u> |

The \$5,636 reported as deferred outflows of resources related to OPEB resulting from Charter School contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

Actuarial Assumptions

The total OPEB liability as of June 30, 2021, was determined by rolling forward the System's total OPEB liability as of June 30, 2020 to June 30, 2021 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method - Entry Age Normal - level % of pay.
- Investment return - 2.18% - S&P 20 Year Municipal Bond Rate.
- Salary growth - Effective average of 4.50%, comprised of inflation of 2.50% and 2.00% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on a blend of 50% PubT-2010 and 50% PubG-2010 Retiree Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2020 improvement scale
- Participation rate:
 - Eligible retirees will elect to participate Pre-age 65 at 50%
 - Eligible retirees will elect to participate Post-age 65 at 70%

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study that was performed for the five year period ended June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2019 determined the employer contribution rate for fiscal year 2021.
- Cost Method: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

Actuarial Assumptions - continued

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

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

The PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2021, is:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------|--------------------------|---|
| Cash | 79.8% | 0.1% |
| U.S. Core Fixed Income | 17.5% | 0.7% |
| Non-U.S. Developed Fixed | 2.7% | (0.3%) |
| | <u>100.0%</u> | |

Discount Rate

The discount rate used to measure the total OPEB liability was 2.18%. Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments, therefore the plan is considered a "pay-as-you-go" plan. A discount rate of 2.18% which represents the S&P 20-year Municipal Bond Rate at June 30, 2021, was applied to all projected benefit payments to measure the total OPEB liability.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS PLAN - CONTINUED

PSERS OPEB Plan - continued

PSERS OPEB Plan Liability, Expense, and Deferred Outflows and Inflows of Resources Related to OPEB - continued

OPEB Plan Fiduciary Net Position

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

Payables Related to the Plan

At June 30, 2022, the Charter School had an accrued balance due to PSERS of \$59,367, including balances related to pension and OPEB. This amount represents the Charter School's contractually obligated contributions for wages earned in April 2022 through June 2022.

NOTE 10 - RISK MANAGEMENT

The Charter School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. Insurance was purchased for the first year of operations, so no reductions or settlement amounts to date.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 11 - CONTINGENT LIABILITIES

The Charter School receives federal and local funding through a number of programs. Payments made by these sources under contractual agreements are provisional and subject to redetermination based on filing reports and audits of those reports. Final settlements due from or to these sources are recorded in the year in which the related services are performed. Any adjustments resulting from subsequent examinations are recognized in the year in which the results of such examinations become known. Charter School officials do not expect any significant adjustments as a result of these examinations.

NOTE 12 - COMMITMENTS

The Charter School has entered into an agreement with the Commonwealth Charter School (CCA) for various operational services, including tuition billing, support services and the loan of computers. The Charter School is billed monthly, based on \$600 per student enrolled in the Pennsylvania STEAM Academy Charter School and \$50 per computer loaned to the Charter School. Total expenditures under this agreement were \$80,750 for the year ended June 30, 2022. Either party can terminate the contract with 30 days written notice. CCA would also need to complete all outstanding projects unless there is cause. This contract was terminated subsequent to year end.

NOTE 13 - FUND BALANCE

Details of the Charter School's governmental fund balance reporting and policy can be found in Note 1, *Summary of Significant Accounting Policies*. Fund balance classifications for the year ended June 30, 2022, were as follows:

General Fund

The general fund has nonspendable funds of \$61,127 related to prepaid expenditures and unassigned funds totaling \$84,408.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 14 - NEW ACCOUNTING PRONOUNCEMENTS

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

- Statement No. 96, *Subscription-Based IT Arrangements* - This statement establishes guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This statement is effective for the Charter School's fiscal year ending June 30, 2023.
- Statement No. 100, *Accounting Changes and Error Corrections - an Amendment of Statement No. 62* - The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
- Statement No. 101, *Compensated Absences* - The primary objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

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

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2022

NOTE 15 - SUBSEQUENT EVENTS

Subsequent to year end, the Charter School entered into an agreement for the purchase of a facility in the amount of \$8,000,000. On August 1, 2022, the Charter School entered into an agreement with Upper Dauphin Industrial Development Authority for the issuance of Authority Revenue Bonds, Series A of 2022 in the amount of \$10,765,000 and Authority Revenue Bonds Series B of 2022 in the amount of \$465,000. The proceeds of the bonds will be used together with other available funds, to finance the acquisition of the above facility, acquire furniture, fixtures and equipment, including certain capital improvements; refinance the Charter School's non-revolving time note; fund a debt service reserve fund and capitalized interest; and pay costs of issuing the bonds. The Series A of 2022 bonds bear interest at 6.25%. Interest is payable semi-annually on January 1 and July 1, beginning January 1, 2023. Principal payments are due annually on July 1, 2029, through maturity on July 1, 2057. The series B of 2022 bonds bear interest at 6.25%. Interest is payable semi-annually on January 1 and July 1, beginning January 1, 2023. Principal payments are due annually on July 1, 2026, through maturity in 2029.

REQUIRED SUPPLEMENTARY INFORMATION

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2022

| | BUDGET | | ACTUAL (GAAP Basis) | VARIANCE Final to Actual |
|--|------------------|------------------|------------------------|-----------------------------|
| | Original | Final | | |
| REVENUES | | | | |
| Local sources | \$ 1,738,560 | \$ 1,738,560 | \$ 1,606,406 | \$ (132,154) |
| Federal sources | - | - | 31,566 | 31,566 |
| TOTAL REVENUES | 1,738,560 | 1,738,560 | 1,637,972 | (100,588) |
| EXPENDITURES | | | | |
| INSTRUCTIONAL SERVICES: | | | | |
| Regular programs - elementary/secondary | 824,500 | 824,500 | 885,204 | (60,704) |
| Special programs - elementary/secondary | 119,250 | 119,250 | 174,108 | (54,858) |
| TOTAL INSTRUCTIONAL SERVICES | 943,750 | 943,750 | 1,059,312 | (115,562) |
| SUPPORT SERVICES: | | | | |
| Students | 60,000 | 60,000 | 72,025 | (12,025) |
| Instructional staff | 260,000 | 260,000 | 2,839 | 257,161 |
| Administration | 305,000 | 305,000 | 303,546 | 1,454 |
| Pupil health | - | - | 26,222 | (26,222) |
| Business | 76,300 | 76,300 | 172,995 | (96,695) |
| Operation and maintenance of plant | 349,780 | 349,780 | 393,553 | (43,773) |
| Central | 141,000 | 141,000 | 88,968 | 52,032 |
| TOTAL SUPPORT SERVICES | 1,192,080 | 1,192,080 | 1,060,148 | 131,932 |
| OPERATION OF NONINSTRUCTIONAL SERVICES: | | | | |
| Community services | - | - | 406 | (406) |
| CAPITAL OUTLAY | - | - | 10,000 | (10,000) |
| DEBT SERVICE PAYMENTS | - | - | 20,382 | (20,382) |
| TOTAL EXPENDITURES | 2,135,830 | 2,135,830 | 2,150,248 | (14,418) |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | (397,270) | (397,270) | (512,276) | (115,006) |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from issuance of note payable | 397,270 | 397,270 | 643,758 | 246,488 |
| Proceeds from issuance of leases | - | - | 5,090 | 5,090 |
| TOTAL OTHER FINANCING SOURCES | 397,270 | 397,270 | 648,848 | 251,578 |
| REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | \$ - | \$ - | 136,572 | \$ 136,572 |
| FUND BALANCE - BEGINNING OF YEAR | | | 8,963 | |
| FUND BALANCE - END OF YEAR | | | \$ 145,535 | |

See note to required supplementary information.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2022

BUDGETARY DATA

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the PDE 2028 when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all 2021/2022 budget transfers. There were no budget transfers for the year ended June 30, 2022.

Excess of Expenditures Over Appropriations in Individual Funds

For the year ended June 30, 2022, the General Fund had an excess of expenditures over appropriations of \$14,418. The Charter School used proceeds from the issuance of long-term debt to satisfy the excess expenditures which were the result of the first year of operation.

Budgetary Compliance

The Charter School's only legally adopted budget is for the general fund. All budgetary transfers, if applicable, were made within the last nine months of the fiscal year. The Charter School cancels all purchase orders open at year end; therefore, it does not have any outstanding encumbrances at June 30, 2022. In addition, the Charter School includes a portion of the prior year's fund balance represented by unappropriated liquid assets remaining in the fund as budgeted revenue in the succeeding year. The results of operations on a GAAP basis do not recognize the fund balance allocation as revenue as it represents prior period's excess of revenues over expenditures.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL
SCHEDULE OF CHARTER SCHOOL'S CONTRIBUTIONS - PENSION PLAN

LAST TEN FISCAL YEARS

| | 2022 |
|---|------------|
| Contractually required contribution | \$ 239,453 |
| Contributions in relation to the contractually required contribution | 239,453 |
| Contribution deficiency (excess) | \$ - |
| Charter School's covered payroll | \$ 665,683 |
| Contributions as a percentage of covered payroll | 35.97% |

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown. The year ended June 30, 2022 was the School's first year of operation.

PENNSYLVANIA STEAM ACADEMY CHARTER SCHOOL
SCHEDULE OF CHARTER SCHOOL'S CONTRIBUTIONS - PSERS OPEB PLAN

LAST TEN FISCAL YEARS

| | 2022 |
|---|------------|
| Contractually required contribution | \$ 5,636 |
| Contributions in relation to the contractually required contribution | 5,636 |
| Contribution deficiency (excess) | \$ - |
| Charter School's covered payroll | \$ 665,683 |
| Contributions as a percentage of covered payroll | 0.85% |

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information for only those years available is shown. The year ended June 30, 2022 was the School's first year of operation.

**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 Directors
Pennsylvania STEAM Academy Charter School
Harrisburg, 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 each major fund of the Pennsylvania STEAM Academy Charter School, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Pennsylvania STEAM Academy Charter School's basic financial statements and have issued our report thereon dated February 14, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pennsylvania STEAM Academy Charter School's internal control over financial reporting (internal control) as a basis for designing 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 Pennsylvania STEAM Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pennsylvania STEAM Academy Charter School's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Herbein + Company, Inc.

Reading, Pennsylvania
February 14, 2023