

Reach Cyber Charter School
Financial Statements
And
Independent Auditor's Report
Year Ended June 30, 2022

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Independent Auditor's Report

To the Board of Trustees
Reach Cyber Charter School
Harrisburg, Pennsylvania

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of Reach Cyber Charter School (the School), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the 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 and the major fund of Reach Cyber Charter School, as of June 30, 2022, and the respective changes in financial position 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 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 Reach Cyber 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.

Change in Accounting Principles

As described in Note 1 to the financial statements, during the year ended June 30, 2022, the School adopted new accounting guidance, GASB 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, and for 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 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 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 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 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, and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Reach Cyber Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **DATE**, on our consideration of Reach Cyber Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Reach Cyber Charter School's internal control over financial reporting and compliance.

SD Associates P.C.

Certified Public Accountants
Elkins Park, Pennsylvania

DATE

Reach Cyber Charter School Management's Discussion and Analysis June 30, 2022

The Board of Trustees of Reach Cyber Charter School (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- Total revenues decreased by approximately \$214,000 due primarily to increased enrollment.
- At the close of the current fiscal year, the School reports an ending fund balance of \$62,250,579. This balance was the result of a \$17,492,915 surplus for the year ended June 30, 2022.
- The School's cash balance at June 30, 2022 was \$26,885,361 representing an increase of \$931,118 from June 30, 2021.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

The *statement of activities* presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School.

Reach Cyber Charter School Management's Discussion and Analysis June 30, 2022

Overview of the Financial Statements (Continued)

Fund Financial Statements

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

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

Notes to the Financial Statements

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

Supplementary Information

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

Government-Wide Financial Analysis

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

	2022	2021
Assets		
Current assets	\$ 77,363,664	\$ 57,514,603
Noncurrent assets	905,858	553,059
	78,269,522	58,067,662
Liabilities		
Current liabilities	15,193,007	13,314,932
Long-term liabilities	703,909	394,542
	15,896,916	13,709,474
Net Position	\$ 62,372,606	\$ 44,358,188

Reach Cyber Charter School Management's Discussion and Analysis June 30, 2022

Government-Wide Financial Analysis (Continued)

As noted earlier, net assets may serve over time as a useful indicator of a school's financial position. In the case of the School, assets exceeded liabilities by \$62,372,606 as of June 30, 2022.

The School's revenues are predominately from local school districts based on student enrollment. For the year ended June 30, 2022, the School's total revenues of \$132,520,472 exceeded expenditures of \$114,506,054 by \$18,014,418.

	<u>2022</u>	<u>2021</u>
Revenues		
Program revenues		
Local educational agency assistance	\$ 118,187,669	\$ 127,554,932
Federal sources	15,031,990	5,007,888
State sources	128,497	143,679
General revenues		
Interest income	169,290	-
Unrealized loss on investments	(1,013,793)	-
Other	16,819	28,335
Total revenues	<u>132,520,472</u>	<u>132,734,834</u>
 Expenditures		
Instruction	85,873,034	79,624,912
Support services	25,811,918	20,456,060
Noninstructional services	2,118,147	1,003,407
Depreciation and amortization	689,877	144,029
Interest Expense	13,078	-
Total expenditures	<u>114,506,054</u>	<u>101,228,408</u>
 Change in net position	18,014,418	31,506,426
Net position, beginning	<u>44,358,188</u>	<u>12,851,762</u>
 Net position, ending	<u>\$ 62,372,606</u>	<u>\$ 44,358,188</u>

Governmental Fund

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

The School's governmental fund (the General Fund) reported an ending fund balance of \$62,520,579.

Reach Cyber Charter School Management's Discussion and Analysis June 30, 2022

Budget Variations

Actual revenues were \$33,876,396 lower than the budget due to increases as follows:

Local educational agency assistance	\$ (41,649,977)
Federal sources	8,575,268
State sources	50,997
Interest income	144,290
Unrealized loss on investments	(1,013,793)
Other revenues	16,819
	<u>\$ (33,876,396)</u>

Actual expenditures were \$22,493,998 lower than the budget due to increases as follows:

Instruction	\$ (22,052,087)
Support services	(1,259,834)
Noninstructional services	(554,902)
Capital outlay	890,593
Debt service	482,232
	<u>\$ (22,493,998)</u>

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2022, the School's investment in capital assets for its governmental activities totaled \$827,419 (net of accumulated depreciation). This investment in capital assets includes leasehold improvements and equipment and furniture.

Major capital asset purchases during the year included the following:

- Capital expenditures of \$502,517 for furniture and equipment

Additional information on the School's capital assets can be found in Note 5 of this report.

Right to Use Leased Assets

During the year ended June 30, 2022, the School adopted new accounting guidance, GASB Statement No. 87, Leases. As of June 30, 2022, the School's right to use leased assets totaled \$79,922 (net of accumulated amortization). Additional information on the School's right to use leased assets can be found in Note 6 of this report.

Long-Term Debt

The School's lease liabilities were \$79,922 at June 30, 2022 (see Note 7).
The School's accrued liabilities due after one year were \$156,963 at June 30, 2022 (see Note 13).

Reach Cyber Charter School Management's Discussion and Analysis June 30, 2022

Economic Factors and Next Year's Budgets and Rates

The fiscal and operational stability of our Commonwealth's charter schools is directly linked to the state of Pennsylvania's budget. The School's primary source of revenue, per pupil funding from school districts across the Commonwealth of Pennsylvania, is determined by the Commonwealth based on a calculation by the student's school district of residence budgeted expenditures. Per pupil funding rates are expected to increase 3 to 4 percent for General Education students and increase 1 to 2 percent for Special Education over the next two fiscal years. The rise in General Education funding rates is due to a rebound effect in larger, urban districts that saw a prior year decline in rates due to relying more heavily on Federal ESSER funding, which is excluded when calculating charter funding rates. To the extent that Commonwealth funds are increased or reduced at the district level, this will also affect charter school funding levels.

Reach will continue to use Federal ESSER funding in 2023-24, after which that stream of funding will largely be exhausted (barring any additional Federal legislation). These factors will make 2023-24 a healthy funding year, with likely more challenging years in the 2024-25 fiscal year and beyond. However, Reach is well-positioned with a healthy Balance Sheet and Fund Balance to weather any challenges.

Future Events That Will Financially Impact the School

As discussed in the notes to the financial statements, the School has entered into an agreement with Professional Services Agreement with Connections Educations, LLC (CE) for curriculum, school management services, instruction, technology, and other services. The School's contract with CE will expire June 30, 2023 after which the School will be self-managing the above referenced services. In anticipation of this future event, the School has begun hiring several new staff positions as well as purchasing technology, curriculum and other resources to prepare for self-management.

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, Reach Cyber Charter School, 750 East Park Drive, Suite 204, Harrisburg, PA 17111.

Reach Cyber Charter School
Statement of Net Position
June 30, 2022

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 26,885,361
Investments	41,907,746
Receivable from school districts, net of allowance	6,550,372
Federal subsidies receivable	805,810
State subsidies receivable	122,830
Prepaid expenses	1,003,662
Security deposit	87,883
Total current assets	77,363,664
Right of use leased assets, net	78,439
Property and equipment, net	827,419
Total assets	78,269,522
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	718,210
Accrued salaries and benefits	7,927,664
Due to Connections Education, LLC	5,141,211
Due to school districts	1,326,000
Long-term liabilities - due within one year:	
Lease liabilities	79,922
Total current liabilities	15,193,007
Long-term liabilities - due after one year:	
Accrued expenses	156,963
Compensated absences	546,946
Total liabilities	15,896,916
Net Position	
Invested in capital assets, net	825,936
Unrestricted	61,546,670
Total net position	\$ 62,372,606

See accompanying notes to financial statements.

Reach Cyber Charter School
Statement of Activities
Year Ended June 30, 2022

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities				
Instruction	\$ 85,873,034	\$ 90,872,884	\$ 11,724,386	\$ 16,724,236
Support services	25,811,918	27,314,785	3,059,455	4,562,322
Noninstructional services	2,118,147	5,668	370,978	(1,741,501)
Depreciation and amortization	689,877	-	-	(689,877)
Interest Expense	13,078	-	-	(13,078)
Total governmental activities	<u>\$ 114,506,054</u>	<u>\$ 118,193,337</u>	<u>\$ 15,154,819</u>	18,842,102
General Revenues				
				169,290
				(1,013,793)
				<u>16,819</u>
				18,014,418
				<u>44,358,188</u>
				<u>\$ 62,372,606</u>

See accompanying notes to financial statements.

Reach Cyber Charter School
Balance Sheet-Governmental Fund
June 30, 2022

	General Fund
Assets	
Cash and cash equivalents	\$ 26,885,361
Investments	41,907,746
Receivable from school districts, net of allowance	6,550,372
Federal subsidies receivable	805,810
State subsidies receivable	122,830
Prepaid expenses	1,003,662
Security deposit	87,883
Total assets	\$ 77,363,664
Liabilities	
Accounts payable and accrued expenses	\$ 718,210
Accrued salaries and benefits	7,927,664
Due to Connections Education, LLC	5,141,211
Due to school districts	1,326,000
Total liabilities	15,113,085
Fund Balances	
Nonspendable	1,091,545
Assigned	51,617,612
Unassigned	9,541,422
Total fund balances	62,250,579
Total liabilities and fund balances	\$ 77,363,664

See accompanying notes to financial statements.

Reach Cyber Charter School Reconciliation of the Balance Sheet of Governmental Funds To the Statement of Net Position June 30, 2022

Total Fund Balance for Governmental Funds \$ 62,250,579

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

Equipment and furniture	1,308,037	
Accumulated depreciation and amortization	<u>(480,618)</u>	827,419

Right to use leased assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Right to use assets, net		78,439
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Long-term liabilities that pertain to governmental funds, including notes payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. Balances at year end are:

Lease liabilities		(79,922)
Accrued liabilities		(156,963)

Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Compensated absences		<u>(546,946)</u>
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Total Net Position of Governmental Activities \$ 62,372,606

Reach Cyber Charter School
Statement of Revenues, Expenditures, and Changes in Fund Balance-
Governmental Fund
Year Ended June 30, 2022

	General Fund
Revenues	
Local educational agency assistance	\$ 118,187,669
Federal sources	15,031,990
State sources	128,497
Interest income	169,290
Unrealized loss on investments	(1,013,793)
Other revenues	16,819
Total revenues	132,520,472
Expenditures	
Instruction	85,720,630
Support services	25,811,918
Noninstructional services	1,961,184
Capital outlay	1,051,593
Debt service	482,232
Total expenditures	115,027,557
Revenues in Excess of Expenditures	17,492,915
Other Financing Sources	
Lease proceeds	549,076
Net Change In Fund Balance	18,041,991
Fund Balance - Beginning of Year	44,208,588
Fund Balance - End of Year	\$ 62,250,579

See accompanying notes to financial statements.

Reach Cyber Charter School
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
Year Ended June 30, 2022

Net Change in Fund Balances - Total Governmental Funds \$ 18,041,991

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

Capital outlays	502,517	
Depreciation expense	<u>(219,240)</u>	283,277
Right to use leased asset	549,076	
Amortization expense	<u>(470,637)</u>	78,439

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

Accrued liabilities	(156,963)	
Lease liabilities issued	(549,076)	
Principal payments on lease liabilities	<u>469,154</u>	(236,885)

In the statement of activities, certain operating expenses - compensated absences (vacations and sick time) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.

(152,404)

Change in Net Position of Governmental Activities \$ 18,014,418

Reach Cyber Charter School Notes to Financial Statements June 30, 2022

Note 1. Background and Summary of Significant Accounting Policies

Reach Cyber Charter School (the School) is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997. The School was granted a charter which expired on June 30, 2019. The School is going through the charter renewal process and expects to receive a new charter agreement. The School will continue to operate through the process.

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

Government-Wide and Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements:

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The government reports the following major governmental fund:

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

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

Reach Cyber Charter School

Notes to Financial Statements

June 30, 2022

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

Method of Accounting

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

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

The School implemented GASB No. 54, *Fund Balance Reporting and Governmental Type Definition*. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The School classified prepaid expenses and security deposit as being nonspendable as these items are not expected to be converted to cash.
- Restricted - included amounts restricted by external sources, such as creditors or grantors, or by constitutional provision or enabling legislation.
- Committed - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees.
- Assigned - includes amounts that the School intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. The School assigned \$51,617,612 of the fund balance as follows:
 - a) \$1,076,189 for professional development
 - b) \$2,379,644 for capital expenditures
 - c) \$5,834,128 for STEM enhancements and mobile lab
 - d) \$3,854,651 for benevolent outreach
 - e) \$10,000,000 for anticipated funding reductions
 - f) \$19,973,000 future student and staff technology
 - g) \$8,500,000 for other anticipated costs due to self-managed transition
- Unassigned - includes all amounts that are not included in other spendable classifications.

Reach Cyber Charter School

Notes to Financial Statements

June 30, 2022

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

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

Budgets and Budgetary Accounting

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

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

Use of Estimates

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

Concentration of Credit Risk

Periodically, the School may maintain deposits in excess of the Federal Deposit Insurance Corporation's limit of \$250,000 with financial institutions.

Deposits and Investments

The School's cash and cash equivalents are considered to be cash on hand and demand deposits. The School's investments consist of obligations of the U.S. Treasury and commercial paper. Investments are reported at fair value.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital assets of the School are depreciated using the straight-line method over the useful lives of the assets; furniture and fixtures (6-7 years) and equipment (3-6 years).

Lease assets

Lease assets are valued at the present value of future minimum lease payment. Amortization is based on the lease terms (see Notes 7 and 12).

Reach Cyber Charter School

Notes to Financial Statements

June 30, 2022

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

Compensated Absences

It is the School's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the General Fund only if they have matured, for example, as a result of employee resignations or treatments.

Advertising Costs

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

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. The School adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management evaluated the School's tax positions and concluded that the School had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The School files a Return of Organizations Exempt from Income Tax annually. The School's returns for 2021, 2020 and 2019 are subject to examination by the IRS, generally for three years after they were filed.

Recently Adopted Accounting Pronouncements

Leases

In June 2017, the GASB issued GASB Statement No. 87, "Leases" ("GASB 87"). The primary objective of the Statement is to enhance the relevance and consistency of information about government's leasing activities by requiring lessees to recognize certain lease assets and lease liabilities on the balance sheet that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement also requires disclosures related to the timing, significance, and purpose of a government's leasing arrangements. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The standard is effective for fiscal years beginning after June 15, 2021, as per GASB Statement No. 95, which extended the effective date for 18 months. Effective July 1, 2021, the School changed its method of recognizing operating lease expense in its financial statements to conform with GASB 87. As a result, the cumulative effect of applying the new method retroactively as of July 1, 2021 was the recording of a right-of-use lease asset and lease liability of \$549,076.

Recent Accounting Guidance

Subscription-Based Information Technology Arrangements

In May 2020, the GASB issued GASB Statement No. 96, "Subscription-Based Information Technology Arrangements." This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITA") for government end users ("governments"). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription 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 disclosure regarding a SBITA. The Statement is effective for fiscal years beginning after June 15, 2022. The School is currently evaluating the Statement and its impact on the financial statements.

Reach Cyber Charter School Notes to Financial Statements June 30, 2022

Note 2. Cash and Cash Equivalents

The School's cash and cash equivalents balance at June 30, 2022, was \$26,885,361. The actual amount of cash on deposit in the School's bank accounts at June 30, 2022 was \$26,971,580. As of June 30, 2022, the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and collateralized with securities held by the pledging bank's trust department, not in the School's name	\$ 26,721,580
Insured amount	\$ 250,000

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

Note 3. Investments

At June 30, 2022, the School's investment balances were as follows:

Investment Type	Fair Value	Investment Maturities (In Years)		Rating
		Less Than 1	1 - 5	
U.S. Treasury Bonds	\$ 37,103,260	\$ 7,406,570	\$ 29,696,690	AAA
Commercial paper	4,804,486	4,804,486	-	P-1
	\$ 41,907,746	\$ 12,211,056	\$ 29,696,690	

Interest Rate Risk. The School does not have any restrictions in any of its investment policies that limit investment maturities.

Credit Risk. The School's investment policy is to apply the "prudent investor" standard: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." Investment ratings are listed above.

Concentration of Credit Risk. The School places no limit on the amount that may be invested in any one issuer.

Note 4. Receivables

Receivables as of June 30, 2022 consist primarily of subsidies from federal, state, and local authorities. Receivables are shown net of an allowance for uncollectible accounts of \$378,287.

Reach Cyber Charter School Notes to Financial Statements June 30, 2022

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	Balance, 7/1/2021	Additions	Deletions	Balance, 6/30/2022
Equipment and furniture	805,520	502,517	-	1,308,037
Less: accumulated depreciation	261,378	219,240		480,618
	\$ 544,142	\$ 283,277	\$ -	\$ 827,419

Depreciation expense was \$219,240 for the year ended June 30, 2022.

Note 6. Funding

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

Note 7. Leasing Arrangements

Lease Assets

A summary of the lease asset activity during the year ended June 30, 2022 is as follows:

	Balance, 7/1/2021	Additions	Deletions	Balance, 6/30/2022
Lease Assets:				
Facilities	\$ -	\$ 549,076	\$ -	\$ 549,076
Less: accumulated amortization	-	(469,154)		(469,154)
Lease assets, net	\$ -	\$ 79,922	\$ -	\$ 79,922

Lease Liabilities

Lease agreements are summarized as follows:

Description	Date	Payment Terms	Payment Amount	Interest Rate	Total Lease Liability	Balance, June 30, 2022
Facilities	7/1/2021	14 months	\$ 40,186	4.50%	\$ 549,076	\$ 79,922

The School's facilities are leased for the School with the terms noted above. The contains two three-year renewal options (see Note 12), and the School will not acquire the facilities at the end of the term.

Reach Cyber Charter School
Notes to Financial Statements
June 30, 2022

Note 7. Leasing Arrangements (Continued)

Changes in lease liabilities are as follows:

Balance, July 1, 2021	\$	-
Additions		549,076
Deletions		(469,154)
Balance, June 30, 2022		\$ 79,922

Amounts calculated below are on the straight line basis monthly rent of \$40,186. The following is a schedule of future minimum lease payments as of June 30, 2022:

Year Ending June 30,	Principal	Interest	Total
2023	\$ 79,922	\$ 450	\$ 80,372

The School entered into a lease agreement to lease a facility in Harrisburg, Pennsylvania under an operating lease agreement that expired August 31, 2022. This lease was amended to expand the space in July 2022 with an effective date of 9/1/2022 (see Note 12). In addition to the basic rentals, the School is subject to additional costs including taxes, occupancy, and maintenance.

Note 8. Retirement Plan

The School provides pension benefits for all of its employees through the Reach Cyber Charter School 403(b) Plan. Employees are required to participate from the date of employment, with a mandatory minimum contribution of 5%. The School will match the employees' contributions dollar for dollar up to 5% of their compensation. School contributions to the plan for the year ended June 30, 2022 totaled \$2,198,742.

Note 9. Risk Management

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the past three years.

Note 10. Grants

The School participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2022 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Reach Cyber Charter School Notes to Financial Statements June 30, 2022

Note 11. Professional Services Agreement

The School entered into an agreement with Connections Educations, LLC (CE) for curriculum, school management services, instruction, technology, and other services. The agreement commenced on July 1, 2020 and expires on the earlier of five years or the expiration of the renewal charter.

Under the contract, CE will provide direct materials/services or procurement and payment of services for the following:

1. Instructional materials as approved by the board
2. Administrative personnel, including health and other benefits, as approved by the Board where required
3. Educational support services for participating families
4. Training and other professional development as approved by the Board
5. Hardware and software as approved by the Board
6. Technical support for any hardware and software provided under the contract
7. Maintenance of student records
8. Services to special needs students as required by law
9. Administrative services including expenditures for a facility and capital, both of which require Board approval
10. Financial, treasury and other reporting as required by law
11. Student recruiting and community education
12. General school management

For all services, the School reimburses CE according to the terms of the contract based on documentation that is reviewed and approved by the Board. Total charges from CE amounted to \$43,403,940 for the year ended June 30, 2022.

Note 12. Litigation

The School is, from time to time, involved in claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, at this time, the ultimate resolution of these matters will not have an adverse effect on the financial position of the School.

Note 13. Subsequent Events

In July 2022, the School entered into the 5th amendment of their facilities lease (see Note 7) that becomes effective September 1, 2022. The lease term is 36 months and contains two three-year extensions at the School's option. Lease payments of \$34,562 are due monthly and will increase 3% per annum. The new lease contains a rent abatement requiring \$0 due for the first month's rent. Amounts calculated below are on the straight line basis monthly rent of \$34,650. Future minimum lease obligations are as follows.

Year Ending June 30,	Principal	Interest	Total
2023	\$ 312,349	\$ 34,151	\$ 346,500
2024	385,120	30,680	415,800
2025	402,813	12,987	415,800
2026	68,912	388	69,300
	\$ 1,169,194	\$ 78,206	\$ 1,247,400

Reach Cyber Charter School

Notes to Financial Statements

June 30, 2022

Note 13. Subsequent Events (Continued)

The School entered into 3 settlement agreements with former students subsequent to year-end relating to matters that existed as of June 30, 2022. Upon review, Management determined an accrual of \$326,878 was considered necessary to record liabilities for these settlements and related legal fees, and is reported as accrued expenses on the statement of net position as of June 30, 2022.

Required Supplementary Information

Reach Cyber Charter School Governmental Fund Budgetary Comparison Schedule Year Ended June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u> <u>Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Revenues/ Expenditures</u>	
Revenues				
Local educational agency assistance	\$ 159,837,646	\$ 159,837,646	\$ 118,187,669	\$ (41,649,977)
Federal sources	6,456,722	6,456,722	15,031,990	8,575,268
State sources	77,500	77,500	128,497	50,997
Interest income	25,000	25,000	169,290	144,290
Unrealized loss on investments	-	-	(1,013,793)	(1,013,793)
Other revenues	-	-	16,819	16,819
Total revenues	<u>166,396,868</u>	<u>166,396,868</u>	<u>132,520,472</u>	<u>(33,876,396)</u>
Expenditures				
Instruction	107,772,717	107,772,717	85,720,630	22,052,087
Support services	27,071,752	27,071,752	25,811,918	1,259,834
Noninstructional services	2,516,086	2,516,086	1,961,184	554,902
Capital outlay	161,000	161,000	1,051,593	(890,593)
Debt service	-	-	482,232	(482,232)
Total expenditures	<u>137,521,555</u>	<u>137,521,555</u>	<u>115,027,557</u>	<u>22,493,998</u>
Revenues in Excess of Expenditures	28,875,313	28,875,313	17,492,915	(56,370,394)
Other Financing Sources				
Lease proceeds	-	-	549,076	(549,076)
Net Change in Fund Balance	28,875,313	28,875,313	18,041,991	(56,919,470)
Fund Balance, Beginning	<u>44,208,588</u>	<u>44,208,588</u>	<u>44,208,588</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 73,083,901</u>	<u>\$ 73,083,901</u>	<u>\$ 62,250,579</u>	<u>\$ (56,919,470)</u>

See accompanying notes to financial statements.

Other Reports Required By Government Auditing Standards



**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees
Reach Cyber 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 and the major fund of Reach Cyber Charter School (the School) as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon, dated DATE.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Certified Public Accountants
Elkins Park, Pennsylvania

DATE

Single Audit Requirements

Reach Cyber Charter School
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/ Pass-Through Grantor	Federal Assistance Listing Number	Pass-Through Grantor's Number	Grant Period	Program or Award	Accrued (Deferred) Revenue 7/1/2021	Total Received for the Year	Revenue Recognized	Federal Expenditures	Accrued (Deferred) Revenue 6/30/2022
U.S. Department of Education									
<u>Pass-Through PA Department of Education</u>									
Title I - Improving Basic Programs	84.010	013-211150	7/1/20-9/30/21	\$ 2,941,880	\$ 1,762,547	\$ 1,762,547	\$ -	\$ -	\$ -
Title I - Improving Basic Programs	84.010	013-221150	7/1/21-9/30/22	3,010,662	-	3,193,947	3,010,662	3,010,662	(183,285)
Title I - Program Improvement Set Aside	84.010	042-201150	9/9/20-9/30/21	75,000	16,870	17,308	438	438	-
Title I - Program Improvement Set Aside	84.010	042-211150	9/13/21-9/30/22	75,000	-	75,000	75,000	75,000	-
					1,779,417	5,048,802	3,086,100	3,086,100	(183,285)
Title II - Improving Teacher Quality	84.367	020-221150	7/1/20-9/30/21	327,910	210,070	210,070	-	-	-
Title II - Improving Teacher Quality	84.367	020-221150	7/1/21-9/30/22	293,867	-	326,751	293,867	293,867	(32,884)
					210,070	536,821	293,867	293,867	(32,884)
Title III - Language Instruction for English Learners	84.365	N/A	7/1/20-9/30/21	2,544	2,544	2,544	-	-	-
Title III - Language Instruction for English Learners	84.365	N/A	7/1/21-9/30/22	2,000	-	-	2,000	2,000	2,000
					2,544	2,544	2,000	2,000	2,000
Title IV - Student Support and Academic Enrichment	84.424	144-211150	7/1/20-9/30/21	67,273	10,704	10,704	-	-	-
Title IV - Student Support and Academic Enrichment	84.424	144-221150	7/1/21-9/30/22	221,233	-	221,102	183,811	183,811	(37,291)
					10,704	231,806	183,811	183,811	(37,291)
<u>Pass-Through Capital Area Intermediate Unit</u>									
Individuals with Disabilities Education Act Part B									
Individuals with Disabilities Education Act Part B	84.027	N/A	7/1/20-9/30/21	1,322,455	171,423	171,423	-	-	-
Individuals with Disabilities Education Act Part B	84.027	N/A	7/1/21-9/30/22	1,522,446	-	1,261,226	1,522,446	1,522,446	261,220
COVID-19 Relief Funding-American Rescue Plan:									
Individuals with Disabilities Education Act Part B	84.027X	N/A	7/1/21-9/30/22	377,720	-	-	377,720	377,720	377,720
Individuals with Disabilities Education Act Preschool	84.173	N/A	7/1/21-6/30/22	2,563	-	2,563	2,563	2,563	-
Total Special Education Cluster					171,423	1,435,212	1,902,729	1,902,729	638,940
COVID-19 Relief Funding:									
Elementary and Secondary School Emergency Relief Fund	84.425D	200-201150	3/13/20-9/30/22	728,580	76,693	76,693	-	-	-
Elementary and Secondary School Emergency Relief Fund	84.425D	200-211150	3/13/20-9/30/23	10,863,449	-	7,326,512	9,277,770	9,277,770	1,951,258
American Rescue Plan-Elementary and Secondary School Emergency Relief Fund	84.425U	223-211150	3/13/20-9/30/24	21,973,613	-	1,598,081	-	-	(1,598,081)
American Rescue Plan-Elementary and Secondary School Emergency Relief Fund:									
Homelss Children and Youth	84.425W	181-212365	7/1/21-9/30/24	62,381	-	3,199	8,249	8,249	5,050
ESSER 7% Reserve	84.425U	225-211150	3/13/20-9/30/24	1,707,844	-	217,362	277,465	277,465	60,103
					76,693	9,221,847	9,563,484	9,563,484	418,330
Total U.S. Department of Education					2,250,851	16,477,032	15,031,991	15,031,991	805,810
Total Federal Awards					\$ 2,250,851	\$ 16,477,032	\$ 15,031,991	\$ 15,031,991	\$ 805,810

See accompanying notes to schedule of expenditures of federal awards.

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Discussion
Purposes Only

Reach Cyber Charter School
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Reach Cyber Charter School (the School) under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

Note 2 Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note 3 Indirect Cost Rate

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



Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance

To the Board of Trustees
Reach Cyber Charter School
Harrisburg, Pennsylvania

Opinion on Each Major Federal Program

We have audited Reach Cyber Charter School's (the School) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2022. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Reach Cyber Charter School and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the regulations of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over

compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

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

Certified Public Accountants
Elkins Park, Pennsylvania

DATE

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Reach Cyber Charter School
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

A. Summary of Audit Results

1. The Independent Auditor's Report expresses an unmodified opinion on the basic financial statements of Reach Cyber Charter School.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting.
3. No instances of noncompliance material to the financial statements of Reach Cyber Charter School which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance.
5. The independent auditor's report on compliance for the major federal award programs for Reach Cyber Charter School expresses an unqualified opinion.
6. There were no audit findings, which were required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was the Education Stabilization Fund, Assistance Listing No. 84.425.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Reach Cyber Charter School qualified as a low-risk auditee.

B. Findings-Financial Statement Audit

None.

C. Findings and Questioned Costs-Major Federal Award Programs Audit

None.