



AGORA CYBER CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2016

AGORA CYBER CHARTER SCHOOL
JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

February 6, 2017

To the Board of Trustees
Agora Cyber Charter School
Wayne, Pennsylvania

Report on Financial Statements

We have audited the accompanying financial statements of the Agora Cyber Charter School ("the School," a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Trustees
Agora Cyber Charter School

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agora Cyber Charter School as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Agora Cyber Charter School's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, 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*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2017 on our consideration of the 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 the School's internal control over financial reporting and compliance.


BARBACANE, THORNTON & COMPANY LLP

**AGORA CYBER CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 24,982,229	\$ 1,784,359
Accounts receivable	20,159,566	21,485,763
Intergovernmental receivables	2,488,273	1,029,465
Prepaid expenses	679,099	3,712,779
Total Current Assets	48,309,167	28,012,366
NONCURRENT ASSETS:		
Software development	-	6,965,886
Leasehold improvements	187,953	22,586
Computer equipment and software	948,592	10,136,801
Office equipment	162,095	138,353
Less: Accumulated depreciation	(305,951)	(259,102)
Property and Equipment, Net	992,689	17,004,524
Deposits	85,922	413,186
Total Noncurrent Assets	1,078,611	17,417,710
TOTAL ASSETS	\$ 49,387,778	\$ 45,430,076
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 42,096,870	\$ 24,112,733
Accrued salaries and benefits	7,405,752	4,604,349
Unearned revenue	205,500	205,500
Current portion of capital lease payable	6,239,416	3,233,018
Total Current Liabilities	55,947,538	32,155,600
NONCURRENT LIABILITIES		
Capital lease payable	-	6,239,416
Total Liabilities	55,947,538	38,395,016
NET ASSETS (DEFICIT):		
Unrestricted (deficit)	(6,559,760)	7,035,060
Total Net Assets (Deficit)	(6,559,760)	7,035,060
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 49,387,778	\$ 45,430,076

The accompanying notes are an integral part of these financial statements.

**AGORA CYBER CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Totals for 2015)**

	Unrestricted	Temporarily Restricted	Totals	
	2016		2016	2015
PUBLIC SUPPORT AND REVENUE				
Public Support:				
Operating subsidy	\$ 99,569,078	-	\$ 99,569,078	\$ 119,225,366
Federal grants	-	5,236,047	5,236,047	5,675,128
Interest income	12,476	-	12,476	3,555
Other income	415,031	-	415,031	658,515
Total Public Support	<u>99,996,585</u>	<u>5,236,047</u>	<u>105,232,632</u>	<u>125,562,564</u>
Net assets released from restriction:				
Satisfaction of program restrictions	5,236,047	(5,236,047)	-	-
TOTAL PUBLIC SUPPORT AND REVENUE	<u>105,232,632</u>	<u>-</u>	<u>105,232,632</u>	<u>125,562,564</u>
EXPENSES				
Program Services:				
Instruction	63,384,540	-	63,384,540	77,573,192
IDEA	1,747,324	-	1,747,324	1,733,329
Title I grant	3,395,864	-	3,395,864	3,683,454
Title II grant	71,730	-	71,730	14,297
Title III grant	3,500	-	3,500	1,748
Total Program Services	<u>68,602,958</u>	<u>-</u>	<u>68,602,958</u>	<u>83,006,020</u>
Support services	31,802,020	-	31,802,020	48,961,160
TOTAL EXPENSES	<u>100,404,978</u>	<u>-</u>	<u>100,404,978</u>	<u>131,967,180</u>
NET OPERATING INCOME (LOSS)	<u>4,827,654</u>	<u>-</u>	<u>4,827,654</u>	<u>(6,404,616)</u>
NONOPERATING GAIN (LOSS)				
Debt forgiveness	1,165,221	-	1,165,221	-
Impairment loss	(19,587,695)	-	(19,587,695)	-
TOTAL NONOPERATING LOSS	<u>(18,422,474)</u>	<u>-</u>	<u>(18,422,474)</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>(13,594,820)</u>	<u>-</u>	<u>(13,594,820)</u>	<u>(6,404,616)</u>
NET ASSETS, BEGINNING OF YEAR	<u>7,035,060</u>	<u>-</u>	<u>7,035,060</u>	<u>13,439,676</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (6,559,760)</u>	<u>\$ -</u>	<u>\$ (6,559,760)</u>	<u>\$ 7,035,060</u>

The accompanying notes are an integral part of these financial statements.

**AGORA CYBER CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Totals for 2015)**

	Program Services							Total Support Services	Totals	
	Instruction	IDEA	Title I	Title II	Title III	Total Program Services	2016		2015	
Salaries	\$ 19,693,478	-	\$ 2,101,331	\$ -	-	\$ 21,794,809	\$ 13,729,359	\$ 35,524,168	\$ 31,296,484	
Benefits and payroll taxes	11,246,499	-	1,294,533	-	-	12,541,032	7,154,157	19,695,189	17,996,233	
Total Salaries and Related Expenses	<u>30,939,977</u>	-	<u>3,395,864</u>	-	-	<u>34,335,841</u>	<u>20,883,516</u>	<u>55,219,357</u>	<u>49,292,717</u>	
Bank charges	-	-	-	-	-	-	15,783	15,783	13,762	
Books and materials	10,691,055	-	-	-	-	10,691,055	-	10,691,055	9,432,857	
Depreciation	-	-	-	-	-	-	50,162	50,162	36,470	
Dues and fees	813	-	-	-	-	813	5,759	6,572	8,499	
Insurance	-	-	-	-	-	-	94,670	94,670	170,703	
Instructional expenses and software	8,348,431	-	-	-	-	8,348,431	-	8,348,431	21,946,352	
Interest expense	-	-	-	-	-	-	2,004,140	2,004,140	88,114	
Legal services	291,910	-	-	-	-	291,910	447,258	739,168	900,063	
Occupancy	223,491	-	-	3,680	-	227,171	492,334	719,505	1,095,600	
Postage	8,440	-	-	-	-	8,440	92,623	101,063	120,848	
Printing and binding	4,884	-	-	-	-	4,884	6,230	11,114	19,615	
Professional services	7,757,249	1,747,324	-	34,544	-	9,539,117	3,587,169	13,126,286	26,536,833	
Rental expense	-	-	-	-	-	-	22,204	22,204	20,265	
Repairs and maintenance	-	-	-	-	-	-	85,373	85,373	37,906	
Special education services	45,626	-	-	-	-	45,626	-	45,626	105,830	
Student activities	674	-	-	-	-	674	20,510	21,184	59,810	
Supplies and small equipment	433,145	-	-	-	3,500	436,645	279,592	716,237	1,100,012	
Technology expense	3,665,886	-	-	-	-	3,665,886	2,810,194	6,476,080	19,245,004	
Telephone and internet	460,716	-	-	-	-	460,716	340,561	801,277	681,788	
Transportation	-	-	-	-	-	-	186,644	186,644	138,193	
Travel and entertainment	512,243	-	-	33,506	-	545,749	377,298	923,047	915,939	
TOTAL EXPENSES	<u>\$ 63,384,540</u>	<u>\$ 1,747,324</u>	<u>\$ 3,395,864</u>	<u>\$ 71,730</u>	<u>\$ 3,500</u>	<u>\$ 68,602,958</u>	<u>\$ 31,802,020</u>	<u>\$ 100,404,978</u>	<u>\$ 131,967,180</u>	

The accompanying notes are an integral part of these financial statements.

**AGORA CYBER CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (13,594,820)	\$ (6,404,616)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	50,162	36,470
Impairment loss	19,587,695	-
Debt forgiveness	1,165,221	-
(Increase) Decrease in:		
Accounts receivable	1,326,197	5,956,872
Intergovernmental receivables	(1,458,808)	924,931
Prepaid expenses	3,033,680	(3,620,665)
Deposits	327,264	(45,917)
Increase (Decrease) in:		
Accounts payable	16,818,916	3,439,572
Accrued salaries and benefits	2,801,403	(3,242,407)
Unearned revenue	-	(162)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>30,056,910</u>	<u>(2,955,922)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of capital assets	<u>(3,626,022)</u>	<u>(6,994,986)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(3,626,022)</u>	<u>(6,994,986)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Note proceeds	8,000,000	-
Note repayments	(8,000,000)	-
Capital lease payments	<u>(3,233,018)</u>	<u>(527,566)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(3,233,018)</u>	<u>(527,566)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	23,197,870	(10,478,474)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,784,359</u>	<u>12,262,833</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 24,982,229</u>	<u>\$ 1,784,359</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid	<u>\$ 2,004,140</u>	<u>\$ 88,114</u>
NONCASH INVESTING AND FINANCING ACTIVITY:		
Capital assets acquired through capital lease	<u>\$ -</u>	<u>\$ 10,000,000</u>

The accompanying notes are an integral part of these financial statements.

AGORA CYBER CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 NATURE OF THE ORGANIZATION

The Agora Cyber Charter School ("the School") is organized as a not-for-profit organization and operates a cyber charter school in King of Prussia, Pennsylvania, under an approved charter received from the Pennsylvania Department of Education, acting pursuant to authority conferred under Act 88. The School's initial operations began on July 1, 2005.

The mission of the School is to provide an innovative and intense academic preparation that inspires and educates students to achieve the highest levels of academic knowledge and skills, and develop proficiency in the design and use of new computer technologies and scientific research. Through a combination of computer-supported instruction in the home; face-to-face meetings; and video conferencing with a certified teacher, specifically tailored research-based curriculum, and access to a community of experts in science and technology, our students will be fully prepared to be leaders in the digital age.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the School have been prepared using the accrual basis of accounting.

Financial Statement Presentation

In accordance with the portion of the FASB ASC regarding financial statements of not-for-profit organizations, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the School is required to present a statement of cash flows.

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. The School has been classified as an organization that is not a private foundation under Sections 509(a)(1) and 170(b)(1)(a)(iv) of the Internal Revenue Code. The School did not engage in any unrelated business activities during the fiscal year. Management believes more likely than not that its tax-exempt status and tax positions will be sustained if examined by authorities.

AGORA CYBER CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cash and Cash Equivalents

The School considers all short-term highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables from grants, contracts, and others. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable.

Property and Equipment

The School defines property and equipment as assets with an initial individual cost equal to or greater than \$1,000 and an estimated useful life in excess of one year. All property and equipment 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 capitalized.

Property and equipment of the School are depreciated using the straight-line method over the following estimated useful lives:

Leasehold improvements	5 - 10 years
Computer equipment and software	1 - 5 years
Office equipment	3 - 10 years

Unearned Revenue

Unearned revenue arises when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when the School has a legal claim to the resources, the liability for unearned revenue is removed from the statement of financial position, and revenue is recognized.

Net Assets

Net Assets represents the difference between assets and liabilities.

AGORA CYBER CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Funding

The School is funded primarily from the local school district in which a student resides by receiving an amount equal to the calculation of selected expenditures per average daily membership for each child attending the School. Funding is recognized as revenue as it is earned. The rate of funding per student is determined on an annual basis.

Allocation of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Financial Statements

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

NOTE 3 DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned. The School does not have a policy in place for custodial credit risk. As of June 30, 2016, the carrying amount of the School's deposits was \$24,982,229, and the bank balance was \$25,330,428. Of the bank balance, \$250,000 was covered by federal depository insurance, \$15,429,739 was exposed to custodial credit risk because it was uninsured and uncollateralized, and the remaining \$9,650,689 was held in the Pennsylvania School District Liquid Asset Fund

AGORA CYBER CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DEPOSITS (cont'd)

("PSDLAF"). Although not registered with the Securities Exchange Commission and not subject to regulatory oversight, PSDLAF acts like a money market mutual fund in that the objective is to maintain a stable net asset value of \$1 per share. PSDLAF is rated by a nationally recognized rating organization and, at June 30, 2016, was rated AAAM.

NOTE 4 RECEIVABLES

Receivables as of June 30, 2016 consist primarily of subsidies from federal, state, and local authorities. All receivables are considered by management to be fully collectible, and no allowance for doubtful accounts has been recorded.

	<u>Accounts</u>	<u>Intergovern- mental</u>
Due from school districts	\$ 20,098,280	\$ -
Other	61,286	-
State receivables	-	335,631
Federal receivables	-	2,152,642
Totals	<u>\$ 20,159,566</u>	<u>\$ 2,488,273</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment activity was as follows:

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Construction-in-progress	\$ 6,965,886	\$ 3,335,443	\$ 10,301,329	\$ -
Leasehold improvements	22,586	168,680	3,313	187,953
Computer equipment	10,136,801	98,157	9,286,366	948,592
Office equipment	138,353	23,742	-	162,095
	<u>17,263,626</u>	<u>3,626,022</u>	<u>19,591,008</u>	<u>1,298,640</u>
Accumulated depreciation	(259,102)	(50,162)	(3,313)	(305,951)
	<u>\$ 17,004,524</u>	<u>\$ 3,575,860</u>	<u>\$ 19,587,695</u>	<u>\$ 992,689</u>

AGORA CYBER CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 UNEARNED REVENUE

During the year ended June 30, 2007, the School received \$205,500 in federal funding from a charter school implementation grant. As of June 30, 2016, management was not able to determine whether the funds have been spent and, accordingly, the amount has been recorded as unearned revenue. To the best of its knowledge, outside counsel has advised management that any pending claims related to the implementation grant remain outstanding.

NOTE 7 CAPITAL LEASE OBLIGATION

The School acquired \$10,000,000 of computers under a capital lease agreement with monthly payments of \$293,552 commencing May 9, 2015 and expiring April 9, 2018. The computers were for students and were supposed to have been placed in service at the beginning of the fiscal 2016 school year. However, the computers were determined to be unusable, and the School recognized an impairment loss on the computers during the year. In addition, the School negotiated an early payoff to the capital lease obligation, and the obligation was settled in August 2016.

Aggregate future minimum lease payments under the capital lease obligation as of June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 6,441,640
Less amount representing interest	<u>202,224</u>
Present value of future minimum lease payments	<u>\$ 6,239,416</u>

The equipment financing lease provides for a financial covenant for the School to maintain a minimum debt service ratio of 1.10 to 1.00. For the year ended June 30, 2016, the School did not meet the financial covenant.

NOTE 8 OPERATING LEASES

On December 1, 2010, the School entered into a 10-year lease for 13,335 square feet of flexible space in a portion of a building at 3300 Henry Avenue, Philadelphia, Pennsylvania, to be used as a drop-in learning center for residents of Southeastern Pennsylvania. Beginning on the commencement date, the annual base rent of \$240,030 per year shall be paid in advance on the first day of each month in monthly installments of \$20,003 per month. The annual base rent shall be increased by 2.75 percent each year.

AGORA CYBER CHARTER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 8 OPERATING LEASES (cont'd)

In May 2015, the School entered into a 60-month lease for its King of Prussia location with 588 Associates, L.P. for approximately 29,000 rentable square feet ("RSF") to be used for its administrative offices. The lease calls for monthly payments beginning at \$9.50/RSF annually from October 2015 through June 2016, increasing by \$0.50/RSF annually each year thereafter on July 1.

The future minimum lease obligations under the operating agreements are as follows:

Year Ending June 30,	Amount
2017	\$ 569,310
2018	591,491
2019	613,883
2020	469,742
2021	127,671
	\$ 2,372,097

Rent expense for the year ended June 30, 2016, was \$478,459 and has been included in Occupancy expense.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Educational Products and Services Agreement

On July 1, 2010, the School entered into an agreement with K12 Pennsylvania, LLC ("K12") to provide educational products and administrative and technology services to the School. The agreement was effective until terminated on June 30, 2015. Amounts due to K12 under these agreements totaled \$30,908,592. On June 9, 2016, the School entered into a settlement agreement with K12. The agreement forgave \$1,000,000 of the amount due and deferred \$4,600,000, which is to be forgiven on June 30, 2017 if all terms of the agreement are met through June 30, 2017. Terms of the agreement call for a \$5,600,000 dollar payment to be made within 90 days of the agreement and for the School to pay \$1,000,000 per month beginning on July 1, 2016 and on the first day of each subsequent month until the amount due has been paid in full. At June 30, 2016, the School owed K12 \$29,908,592.

On June 20, 2016, the School entered into a settlement agreement with Spider Learning, Inc. ("Spider"). Previously, the School had entered into an agreement with Spider for the development of certain course content, media, projects, and related assessments for the middle school curriculum. Amounts due to Spider under the agreement totaled \$665,221. Per the

AGORA CYBER CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 COMMITMENTS AND CONTINGENCIES (cont'd)

settlement agreement, Spider agreed to forgive \$165,221 of the amount due, and the School agreed to pay Spider \$500,000 in three equal installments. The first installment was due July 1, 2016, the second installment was due no later than 30 days thereafter, and the final payment due 30 days thereafter.

On September 10, 2014, the School entered into a master services agreement with Education Elements to develop an education platform. On June 30, 2016, the School entered into a settlement agreement with Education Elements to terminate their master services agreement. The School owed \$1,350,000 to Education Elements, and the agreement called for three equal payments of \$450,000. The first payment was due within three days of the signed agreement, the second payment due 30 days thereafter, and final payment due 30 days thereafter.

All of the above amounts have been reported in accounts payable by the School at June 30, 2016.

NOTE 10 DEFINED BENEFIT PENSION PLAN

The School contributes to a governmental cost-sharing multiple-employer defined benefit pension plan administered by the Pennsylvania Public School Employees' Retirement System ("PSERS"). Benefit provisions of the plan are established under the provisions of the Pennsylvania Public School Employees' Retirement Code ("the Code") and may be amended by an act of the Pennsylvania State Legislature. The plan provides retirement, disability, and death benefits; legislatively mandated *ad hoc* cost-of-living adjustments; and healthcare insurance premium assistance to qualifying plan members and beneficiaries. It also provides for refunds of a member's accumulated contribution upon termination of the member's employment in the public school sector. PSERS issues annual publicly available financial reports that include financial statements for the plan. The report may be obtained by writing to PSERS, P.O. Box 125, Harrisburg, PA 17108-0125.

Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members and employers and the Commonwealth. In the past, most active members were required to contribute 5.25 percent of their compensation if they joined the plan before July 22, 1983, and 6.25 percent if they joined on or after that date.

Members enrolled at June 1, 2001 had to elect to maintain the same contribution rate as stated above, or change to a higher contribution rate that provides greater retirement benefits. The new higher contribution rates, effective January 1, 2002, are 6.5 percent if the member joined prior to July 22, 1983 and 7.5 percent if they joined on or after that date. The contributions

AGORA CYBER CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 DEFINED BENEFIT PENSION PLAN (cont'd)

required of participating employers are based on an actuarial valuation and are expressed as a percentage of annual covered payroll during the period for which the amount is determined. For the fiscal year ended June 30, 2016, the rate of employer contribution was 25.84 percent of covered payroll, allocated 25.0 percent to pensions and 0.84 percent to health insurance. The School's contributions to PSERS for the years ended June 30, 2016, 2015, and 2014 were \$7,966,313, \$6,383,305, and \$4,713,180, respectively. Those amounts are equal to the required contribution for each year.

403(b) Plan Description

For all employees hired after June 1, 2015, the School participates in the Agora Cyber Charter School 403(b) Plan ("403(b) Plan") as an alternative to the PSERS plan. The plan requires a five percent mandatory employee contribution as well as a five percent employer nonelective contribution for the employee. The employer may also, at their desire, add a discretionary nonelective contribution to be determined on an annual basis. Employer contributions become 100 percent vested after one year of participation in the 403(b) Plan.

Funding Policy

The contribution policy is established by the 403(b) Plan document and requires contributions by employees and the employer. For the year ended June 30, 2016, the School's contributions were \$154,338.

NOTE 11 GRANTS

The School participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at June 30, 2016 may be impaired. With the exception of Note 6, 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.

NOTE 12 RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. The School self-funds health insurance claims up to a limit

AGORA CYBER CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 RISK MANAGEMENT (cont'd)

of \$5,989,261 in total for the year. An excess loss insurance policy is in place for claims in excess of this threshold. Included in the financial statements is a payable for payments in excess of actual claims incurred at June 30, 2016.

Claims payable at the beginning of the year	\$ (565,498)
Incurred claims	(7,262,667)
Payments on claims	<u>8,424,648</u>
Claims prepaid at end of year	<u>\$ 596,483</u>

NOTE 13 ECONOMIC DEPENDENCY

The largest source of revenue for the School is the amount received through operating subsidies from local education agency assistance. This amount was \$99,569,078, or 94.62 percent, of total support and revenue for the year ended June 30, 2015. Of this amount, 26.99 percent came from the Philadelphia City School District.

NOTE 14 IMPAIRMENT LOSS

During the year ended June 30, 2016, the School had to abandon the development of their own online curriculum, software, platform, and related computer equipment. Based on the resale value of the items, the School has recorded an impairment loss in the amount of \$19,587,695.

NOTE 15 SUBSEQUENT EVENTS

On August 3, 2016, the School paid off the remaining balance of the capital lease obligation, including an early payment penalty.

The School has evaluated all subsequent events through February 6, 2017, the date the financial statements were available to be issued.

SINGLE AUDIT INFORMATION

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

February 6, 2017

To the Board of Trustees
Agora Cyber Charter School
King of Prussia, 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 Agora Cyber Charter School ("the School," a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as #2016-001 through #2016-007 to be material weaknesses.

To the Board of Trustees
Agora Cyber Charter School

Compliance and Other Matters

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

Agora Cyber Charter School's Response to Findings

The School's response to the findings identified in our audit are described in the School's Corrective Action Plan. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 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.


BARBACANE, THORNTON & COMPANY LLP

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

T 302.478.8940
F 302.468.4001
www.btcpa.com

February 6, 2017

To the Board of Trustees
Agora Cyber Charter School
King of Prussia, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited the Agora Cyber Charter School's ("the School") compliance with the types of compliance requirements described 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, 2016. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

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

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

To the Board of Trustees
Agora Cyber Charter School

Basis for Qualified Opinion on CFDA #84.027 and #84.173 Special Education Cluster and CFDA #84.010 Title I Grants - Improving Basic Programs

As described in the accompanying schedule of findings and recommendations, the School did not comply with requirements regarding reporting and maintenance of fiscal effort. These findings are described as items #2016-008 and #2016-009 in the accompanying schedule of findings and recommendations. Compliance with such requirements is necessary, in our opinion, for the School to comply with the requirements applicable to that program

Qualified Opinion on Each Major Program

In our opinion, except for the noncompliance described in the "Basis for Qualified Opinion" paragraph, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA #84.027 and #84.173 Special Education Cluster and CFDA #84.010 Title I Grants - Improving Basic Programs for the year ended June 30, 2016.

Other Matters

The School's response to the noncompliance findings identified in our audit is described in the School's corrective action plan. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a

To the Board of Trustees
Agora Cyber Charter School

deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and recommendations as items #2016-001 through #2016-007 to be material weaknesses.

The School's response to the internal control over compliance findings identified in the School's Corrective Action Plan. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

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

FEDERAL GRANTOR/PROJECT TITLE U.S. DEPARTMENT OF EDUCATION	SOURCE CODE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (UNEARNED) REVENUE 07/01/2015	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED (UNEARNED) REVENUE 06/30/2016	AMOUNT PASSED THROUGH TO SUBRECIPIENTS
Passed through Pennsylvania Department of Education											
Title I Grants - Improving Basic Programs	I	84.010	013-151017	09/02/14 - 09/30/16	\$ 3,548,040	\$ 318,247	\$ 298,065	\$ 20,182	\$ 20,182	\$ -	\$ -
Title I Grants - Improving Basic Programs	I	84.010	013-161017	06/15/15 - 09/30/16	3,309,029	2,928,706	-	3,309,029	3,309,029	380,323	-
Program Improvement - Set Aside	I	84.010	042-151057	06/10/15 - 09/30/16	66,653	41,658	-	66,653	66,653	24,995	-
Total CFDA #84.010					3,288,611	3,288,611	298,065	3,395,864	3,395,864	405,318	-
English Language Acquisition State Grants											
Total CFDA #84.365	I	84.365	N/A	07/01/15 - 06/30/16	3,500	3,500	-	3,500	3,500	-	-
Title II - Improving Teacher Quality											
Title II - Improving Teacher Quality	I	84.367	020-151017	01/05/15 - 09/30/15	48,859	15,582	(15,788)	31,370	31,370	-	-
Title II - Improving Teacher Quality	I	84.367	020-161017	07/15/15 - 09/30/16	40,360	40,360	-	40,360	40,360	-	-
Total CFDA #84.367					55,942	55,942	(15,788)	71,730	71,730	-	-
Passed through Chester County LU											
Special Education - Grants to State (IDEA, Part B)	I	84.027	062-140024	07/01/14 - 09/30/15	1,732,295	346,459	346,459	-	-	-	-
Special Education - Grants to State (IDEA, Part B)	I	84.027	062-150024	07/01/15 - 09/30/16	1,746,486	-	-	1,746,486	1,746,486	1,746,486	-
Total CFDA #84.027					346,459	346,459	346,459	1,746,486	1,746,486	1,746,486	-
Special Education - Preschool Grants (IDEA Preschool)											
Special Education - Preschool Grants (IDEA Preschool)	I	84.173	131-140024B	07/01/14 - 09/30/15	1,034	1,034	1,034	-	-	-	-
Special Education - Preschool Grants (IDEA Preschool)	I	84.173	131-150024B	07/01/15 - 09/30/16	838	-	-	838	838	838	-
Total CFDA #84.173					1,034	1,034	1,034	838	838	838	-
Total Special Education Cluster					347,493	347,493	347,493	1,747,324	1,747,324	1,747,324	-
TOTAL U.S. DEPARTMENT OF EDUCATION					3,695,546	3,695,546	629,770	5,218,418	5,218,418	2,152,642	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ 3,695,546	\$ 3,695,546	\$ 629,770	\$ 5,218,418	\$ 5,218,418	\$ 2,152,642	\$ -

SOURCE CODE:

I - Indirect Funding

AGORA CYBER CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A REPORTING ENTITY

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the Agora Cyber Charter School. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

NOTE B BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

NOTE C INDIRECT COST RATE

The School has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. For the year ended June 30, 2016, there were no indirect costs included in the schedule of expenditure of federal awards.

NOTE D ACCESS PROGRAM

The ACCESS Program is a medical assistance program that reimburses local educational agencies for direct eligible health-related services provided to enrolled special needs students. Reimbursements are federal source revenues but are classified as fee-for-service and are not considered federal financial assistance. The amount of ACCESS funding recognized for the year ended June 30, 2016 was \$17,629.

**SCHEDULE OF
FINDINGS AND RECOMMENDATIONS**

AGORA CYBER CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Qualified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

 X Yes No

Identification of major program:

CFDA Number
84.010
84.027 and 84.173

Name of Federal Program or Cluster
Title I Grants - Improving Basic Programs
Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 X Yes No

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2016-001 – MATERIAL ADJUSTING JOURNAL ENTRIES

Condition

During our current year audit, significant material adjusting journal entries were required as part of the audit process to correct the School's financial statements. The aggregate amount of all required adjusting journal entries exceeded \$58 million.

Criteria

The internal controls over financial reporting of an entity should allow for the identification of material misstatements and enable the correction of material misstatements prior to the start of the audit process. This is especially important due to the importance of internal and external financial reporting, which is a key component of an entity's control environment.

Cause

The School lacked a sufficiently staffed finance and accounting office to oversee the financial reporting process with the requisite skills to detect and correct material misstatements.

Effect

During the audit for the year ended June 30, 2016, adjusting audit journal entries in excess of \$58 million were required to fairly present the financial statements.

Questioned Costs

This finding does not result in questioned costs.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Recommendation

We recommend that the School implement policies and procedures that will provide for strong internal controls over financial reporting. Critical to this process will be the hiring and development of a strong staff of finance and accounting employees, and the implementation of the following recommendations.

Management's Response

See management's corrective action plan.

2016-002 – SIGNIFICANT TURNOVER OF EXECUTIVE EMPLOYEES AND LACK OF ADEQUATE STAFFING

Condition

During our current year audit, we noted a significant amount of turnover in executive level positions. In particular, the School was managed by four separate Chief Executive Officers on either a full-time, interim, or contractual basis between July 2015 and June 2016. In addition, the positions of the Chief Financial Officer and the Federal Programs Director were vacant for approximately half of fiscal year 2016. We also noted that critical departments, such as the accounting/finance and payroll departments were severely understaffed.

Criteria

An entity should have a sufficient staff of proficiently skilled employees to ensure that it can both adequately meet its operational requirements as well as its internal and external financial reporting requirements. In addition, turnover of executive employees should be minimal in order to ensure the consistency of the organization's governance and administration.

Cause

The significance and number of difficulties encountered in the School's first year of self-management created an environment that was not conducive to the retention of long-term staff.

Effect

The lack of sufficient staffing and executive oversight did not enable the School to adequately oversee its financial reporting process. The lack of a Federal Programs Director to oversee the compliance requirements of the School's federal programs also contributed to the instances of noncompliance described in Part C – Findings Related to Federal Awards.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Questioned Costs

This finding does not result in questioned costs.

Recommendation

We recommend that the School continue its efforts to identify and hire proficiently skilled individuals in order to ensure its critical departments are adequately staffed. We noted that in early fiscal year 2017, the School hired a Chief Executive Officer with significant experience managing a virtual charter school. We recommend that the hiring process for other critical and executive positions continue.

Management's Response

See management's corrective action plan.

2016-003 – SIGNIFICANT TURNOVER OF BOARD OF TRUSTEES

Condition

During our current year audit, we noted that there was a significant amount of turnover of the Board of Trustees; in particular, at its lowest point, the Board of Trustees comprised only two members.

Criteria

An entity's board of governance is responsible for the strategic planning, direction, and ultimate success or failure of the entity. It is therefore imperative that an organization's board of governance maintain a consistent membership of individuals that are committed to the organization's long-term success. A minimum number of members should also be maintained at all times, as defined by the organization's bylaws, to avoid making all of the organization's critical decisions and long-term planning the responsibility of a limited number of individuals.

Cause

The significance and number of difficulties encountered in the School's first year of self-management created an environment that was not conducive to the retention of long-term board members.

Effect

There were a large number of board member resignations during the year, and for several months of fiscal year 2016, the School's Board of Trustees consisted of only two members.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Questioned Costs

This finding does not result in questioned costs.

Recommendation

We noted that in fiscal year 2017, the School began to recruit new members to the Board of Trustees, and as of the date of this report, there were a total of six members. We recommend that the School continue to recruit individuals that are dedicated to the School's long-term success, and implement policies and procedures that will foster the long-term retention of these employees.

Management's Response

See management's corrective action plan.

2016-004 – LACK OF PAYROLL AND HUMAN RESOURCES CONTROLS

Condition

During our current year audit, significant, material adjusting journal entries were required to correct the School's salaries and benefits expenses, and the related year-end payroll liabilities. In addition, of the ten employees we haphazardly selected in our testing procedures, one employee was not paid the correct salary for a majority of the year.

Criteria

An organization's controls surrounding the payroll process should ensure the following items:

- That the amount paid to each employee is consistent with the salary amount approved by management or the board each fiscal year.
- That salaries, benefits, and related tax expenses are correctly recorded in the organization's general ledger.

Cause

The School did not adequately monitor and review the amounts recorded in each payroll period to ensure that the amounts being paid were correct. In addition, for a large portion of the year, the School's payroll department was severely understaffed.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Effect

Material adjusting journal entries were required to correct the School's payroll and related liabilities and expenses. In addition, we noted that one employee was incorrectly paid for the majority of the fiscal year.

Questioned Costs

This finding does not result in questioned costs.

Recommendation

We noted that in fiscal year 2017, the School began using an outside service provider to provide payroll processing services, which will greatly assist in ensuring that payroll is processed correctly. We recommend that the School implement internal control processes that will require that all payroll reports from their service provider be reviewed, and that approval of these reports be documented. In addition, the controls the School puts in place should be adequate to ensure that the payroll amounts are correctly entered into the general ledger, and that the payroll liabilities are reconciled after each pay run.

Management's Response

See management's corrective action plan.

2016-005 – BANK RECONCILIATIONS NOT PREPARED

Condition

For the fiscal year ended June 30, 2016, the School did not prepare bank reconciliations to reconcile its cash balances at month end per the bank statements to the cash balances recorded in its general ledger.

Criteria

Bank reconciliations are a critical component of an entity's internal control process, as they enable an entity to know the true balance of their deposit accounts at a given time, and greatly assist in ensuring that the transactions recorded in the general ledger are being properly recorded. They are also an essential tool in preventing the misappropriation of assets.

Cause

The School's finance and accounting department was not adequately staffed during the year, and reconciliations were not made a priority by the School's management.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Effect

The School's unadjusted cash balances were materially misstated at year end.

Questioned Costs

This finding does not result in questioned costs.

Recommendation

We recommend that the School implement procedures that will require that all bank reconciliations be reconciled on a monthly basis. To ensure adequate segregation of incompatible duties, this reconciliation should be performed by someone without recordkeeping duties or access to checks or deposits. These reconciliations should be reviewed and approval documented by the Controller or other designated official.

Management's Response

See management's corrective action plan.

2016-006 – CAPITAL ASSET RECORDS

Condition

During the year ended June 30, 2016, the School did not maintain capital asset records documenting capital additions and depreciation expense.

Criteria

Entities should track all capital asset information to ensure that the net capital asset balances and depreciation expense reported in its financial statements are presented fairly. In addition, analysis of an organization's capital expenses is important from both a budgetary perspective and for ongoing monitoring of the condition and estimated life of the School's equipment and other capital assets.

Cause

The School's finance and accounting department was not adequately staffed during the year, and preparation of the necessary capital asset schedules was not made a priority.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Effect

The School's capital assets were materially misstated.

Questioned Costs

This finding does not result in questioned costs.

Recommendation

We recommend that the School begin tracking its capital assets to ensure that the asset balances, capital additions and disposals, depreciation expense, and accumulated depreciation are fairly stated.

Management's Response

See management's corrective action plan.

2016-007 – FINANCIAL MANAGEMENT OF FEDERAL AWARDS

Condition

During the year ended June 30, 2016, significant adjusting journal entries were required to correctly record the entity's federal expenditures. In particular, federal expenditures for two of its programs were recorded in excess of the grant award total, indicating a lack of comparison between the actual expenditures for the program and the awarded amount. In addition, the School was not able to adequately support or demonstrate its allocation of expenditures between its federal and non-federal expense accounts for certain federal expenditures selected for testing.

Criteria

As required by 2 CFR 200 Section 302, *Financial Management of the Uniform Guidance*, a local education agency must maintain adequate internal controls over financial reporting related to the entity's federal awards. In particular, the financial management system of an entity must provide for the following:

- Identification in its accounts of all federal awards received and expended.
- Accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the reporting and monitoring requirements established by 2 CFR 200 Section 327, *Financial Reporting and Section 328 Monitoring*.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

- Records that adequately identify the source and application of funds for federally-funded activities.
- Effective control over and accountability for all funds, property, and other assets.
- Comparison of expenditures with budget amounts for each federal award.
- Written procedures to implement the requirements of 2 CFR 200 Section 305, *Payment*.
- Written procedures for determining the allowability of costs in accordance with Subpart E - *Cost Principles of the Uniform Guidance*.

Cause

The School did not have a sufficient staff of proficiently skilled employees to monitor its federal programs during the year and ensure that the program activities were properly recorded in the general ledger.

Effect

Significant adjusting entries were required to correct the School's federal awards.

Questioned Costs

This finding does not result in questioned costs.

Recommendation

While we recognize the fact that the School has hired a Federal Programs Coordinator since the start of the audit process, we recommend that the School implement procedures that will ensure the activities of its federal programs are correctly recorded in the School's financial accounting system. In particular, staff administering the federal programs and the staff in the accounting and finance department should collaborate to ensure that all activities are properly administered and recorded. Management should also implement procedures that require the continuous monitoring of each program's budget to ensure compliance with the Uniform Guidance Financial Management requirement. Lastly, management should implement procedures that will provide for support of the entity's allocation of expenses between federal and non-federal expenses; for instance, if an invoice is coded partially between a federal program and a non-federal program, the allocation of each amount should be documented.

Management's Response

See management's corrective action plan.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

See Findings 2016-001, 2016-002, 2016-004, 2016-005, and 2016-007 under Part B (CFDA # 84.010 and #84.027)

2016-008 – MAINTENANCE OF EFFORT (CFDA #84.010 and #84.027)

Condition

During the year ended June 30, 2016, the School did not meet the maintenance of effort requirement for its Title and IDEA programs. The School's adjusted aggregate expenses were 75 percent of its prior year expenses and 86 percent of its prior year expenses on a per-pupil basis.

Criteria

As required by Section 5141(a) of the No Child Left Behind Act of 2001, a local education agency's combined fiscal effort per student, or the aggregate expenses of the local education agency (adjusted for certain items), must equal 90 percent or more of the prior fiscal year's combined fiscal effort per student or aggregate adjusted expenses.

Cause

The School's overall expenses decreased significantly from fiscal year 2015 due to becoming self-managed; in particular, the School did not incur costs for management fees charged by an outside agency, which totaled approximately \$18 million in fiscal year 2014-2015.

Effect

As outlined in Section 5141(b) of the No Child Left Behind Act of 2001, failure to meet the maintenance of effort requirement will result in a reduction of the allotment of federal funds in the succeeding fiscal year in the exact proportion by which the local education agency failed to meet its maintenance effort requirement.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Questioned Costs

This finding does not result in questioned costs.

Recommendation

While we recognize the fact that the School has hired a Federal Programs Coordinator since the start of the audit process, we recommend that the School continually monitor its maintenance of effort calculation to ensure that it is maintaining an adequate fiscal effort to meet this requirement.

Management's Response

See management's corrective action plan.

2016-009 – REPORTING (CFDA #84.010)

Condition

The School was able to provide evidence for submitting only one of the four quarterly cash on hand reconciliation reports required by the Pennsylvania Department of Education.

Criteria

Subrecipients of Title program funding must provide information to the granting agency regarding program expenditures, receipts, and the amount of cash on hand received from the program funding. The Pennsylvania Department of Education requires each local education agency to complete and submit quarterly cash on hand reports in order to aggregate this required information.

Cause

The School lacked adequate staffing to properly oversee the reporting requirements of its federal programs; in particular, the position of Federal Programs Director was vacant for approximately half of the year.

Effect

Failure to properly submit reports may result in future awards being withheld or denied.

Questioned Costs

This finding does not result in questioned costs.

AGORA CYBER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Recommendation

While we recognize the fact that the School has hired a Federal Programs Coordinator since the start of the audit process, the management of the School should develop an adequately trained and knowledgeable staff that understand the requirements of all federal programs; in particular, the Federal Programs Director, or a similar position, should be filled as soon as possible to ensure adequate oversight of the School's federal programs.

Management's Response

See management's corrective action plan.



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Fax: 610-265-5361

Agora Cyber Charter School - Fiscal Year 2015 - 2016 Corrective Action Plan

Date: February 6, 2017

To Whom It May Concern:

Agora Cyber Charter School respectfully submits the following management response for the year ended June 30, 2016, based on the schedule of findings and recommendations included in the following audit report:

Audit Period: July 1, 2015 - June 30, 2016

Auditor: Barbacane, Thornton & Company LLP
Certified Public Accountants
200 Springer Building, 3411 Silverside Road
Wilmington, DE 19810

Finding 2016-001 – Material Adjusting Journal Entries – During our current year audit, significant material adjusting journal entries were required as part of the audit process to correct the School's financial statements. The aggregate amount of all required adjusting journal entries exceeded \$58 million.

Recommendation – We recommend that the School implement policies and procedures that will provide for strong internal controls over financial reporting. Critical to this process will be the hiring and development of a strong staff of finance and accounting employees, and the implementation of the following recommendations.

Action Taken – Agora Cyber Charter School management agrees with the above recommendation and has instituted policies and procedures designed to address this finding. (Please see the list of approved policies and procedures.) In addition, the school has retained the services of experienced financial professionals to oversee the improvements in this area since June 30, 2016.

Finding 2016-002 – Significant Turnover of Executive Employees and Lack of Adequate Staffing – During the audit for the year ended June 30, 2016 we noted a significant amount of turnover in executive level positions. In particular, the School was managed by four separate Chief Executive Officers on either a full-time, interim, or contractual basis between July 2015 and June 2016. In addition, the positions of the Chief Financial Officer and the Federal Programs Director were vacant for approximately half of fiscal year 2016. We also noted that critical departments, such as the accounting/finance and payroll departments were severely understaffed.

Recommendation – We recommend that the School continue its efforts to identify and hire proficiently skilled individuals in order to ensure its critical departments are adequately staffed. We noted that in early fiscal year 2017, the School hired a Chief Executive Officer with significant experience managing a virtual charter school. We recommend that the hiring process for other critical and executive positions continue.

Action Taken – Agora Cyber Charter School, in August 2016, hired an experienced, proven Chief Executive Officer. In addition, they have also hired an experienced Director of Human Resources, an experienced Director of Information Technology, and an experienced financial consultant acting in the role of Chief Financial Officer. Additional positions are being actively recruited for these critical areas. The continuity of these key positions will make the organization more efficient and ensure adopted policies and procedures are followed and enforced.

Finding 2016-003 – Significant Turnover of Board of Trustees – During our current year audit, we noted that there was a significant amount of turnover of the Board of Trustees; in particular, at its lowest point, the Board of Trustees comprised only two members.

Recommendation – We noted that in fiscal year 2017, the School began to recruit new members to the Board of Trustees, and as of the date of this report, there were a total of six members. We recommend that the School continue to recruit individuals that are dedicated to the School's long-term success, and implement policies and procedures that will foster the long-term retention of these employees.

Action Taken – Agora Cyber Charter School, as of the date of this writing, has six Board of Trustees and is actively recruiting an additional qualified candidate in accordance the maximum trustees as allowed by the School's by-laws. (There is no minimum.) In addition, an audit committee has been formed, and part of their oversight will be the enforcement of the policies and procedures approved by the Board. Please see the list of approved policies and procedures.

Finding 2016-004 – Lack of Payroll and Human Resources Controls – During the audit of the year ended June 30, 2016, significant, material adjusting journal entries were required to correct the School's salaries and benefits expenses, and the related year-end payroll liabilities. In addition, of the ten employees we haphazardly selected in our testing procedures, one employee was not paid the correct salary for a majority of the year.

Recommendation – We noted that in fiscal year 2017, the School began using an outside service provider to provide payroll processing services, which will greatly assist in ensuring that payroll is processed correctly. We recommend that the School implement internal control processes that will require that all payroll reports from their service provider be reviewed, and that approval of these reports be documented. In addition, the controls the School puts in place should be adequate to ensure that the payroll amounts are correctly entered into the general ledger, and that the payroll liabilities are reconciled after each pay run.

Action Taken – In addition to the outside service provider as referenced above, Agora Cyber Charter School has hired an experienced Director of Human Resources and is actively recruiting for a Payroll/Benefits Manager. These hires will also ensure that the approved policies and procedures will be followed. Please see the list of approved policies and procedures.

Finding 2016-005 – Bank Reconciliations Not Prepared – For the fiscal year ended June 30, 2016, the School did not prepare bank reconciliations to reconcile its cash balances at month end per the bank statements to the cash balances recorded in its general ledger.

Recommendation – We recommend that the School implement procedures that will require that all bank reconciliations be reconciled on a monthly basis. To ensure adequate segregation of incompatible duties, this reconciliation should be performed by someone without recordkeeping duties or access to checks or deposits. These reconciliations should be reviewed and approval documented by the Controller or other designated official.

Action Taken – Agora has instituted tighter cash tracking controls in addition to monthly and timely reconciliations. This includes the daily monitoring of bank cash activity and forecasting with updates based on business events. In addition, the approved policies and procedures pertaining to cash are being followed and incorporated into the monthly closing process. Please see the list of approved policies and procedures.

Finding 2016-006 – Capital Asset Records – During the year ended June 30, 2016, the School did not maintain capital asset records documenting capital additions and depreciation expense.

Recommendation – We recommend that the School begin tracking its capital assets to ensure that the asset balances, capital additions and disposals, depreciation expense, and accumulated depreciation are fairly stated.

Action Taken – Agora Cyber Charter School is actively tracking its capital assets and recording associated depreciation on a timely basis. In addition, the technology equipment and infrastructure used by the students has been outsourced.

Finding 2016-007 – Financial Management of Federal Awards – During the year ended June 30, 2016, significant adjusting journal entries were required to correctly record the entity's federal expenditures. In particular, federal expenditures for two of its programs were recorded in excess of the grant award total, indicating a lack of comparison between the actual expenditures for the program and the awarded amount. In addition, the School was not able to adequately support or demonstrate its allocation of expenditures between its federal and non-federal expense accounts for certain federal expenditures selected for testing.

Recommendation – While we recognize the fact that the School has hired a Federal Programs Coordinator since the start of the audit process, we recommend that the School implement procedures that will ensure the activities of its federal programs are correctly recorded in the School's financial accounting system. In particular, staff administering the federal programs and the staff in the accounting and finance department should collaborate to ensure that all activities are properly administered and recorded. Management should also implement procedures that require the continuous monitoring of each program's budget to ensure compliance with the Uniform Guidance Financial Management requirement. Lastly, management should implement procedures that will provide for support of the entity's allocation of expenses between federal and non-federal expenses; for instance, if an invoice is coded partially between a federal program and a non-federal program, the allocation of each amount should be documented.

Action Taken - Agora Cyber Charter School as stated above, has hired an experienced Federal Programs Coordinator who will oversee this area of responsibility. The School will work with its new Federal Programs Coordinator to follow the approved policies and procedures which monitor the maintenance the applicable requirements. Please see the list of approved policies and procedures.

Finding 2016-008 – Maintenance of Effort (CFDA #84.101 and #84.027) – During the year ended June 30, 2016, the School did not meet the maintenance of effort requirement for its Title and IDEA programs. The School's adjusted aggregate expenses were 75 percent of its prior year expenses and 86 percent of its prior year expenses on a per-pupil basis.

Recommendation – While we recognize the fact that the School has hired a Federal Programs Coordinator since the start of the audit process, we recommend that the School continually monitor its maintenance of effort calculation to ensure that it is maintaining an adequate fiscal effort to meet this requirement.

Action Taken – The Federal Programs Coordinator will monitor the required maintenance effort in addition to enforcing the approved policies and procedures. Please see the list of approved policies and procedures.

Finding 2016-009 – Reporting (CFDA #84.010) – The School was able to provide evidence for submitting only one of the four quarterly cash on hand reconciliation reports required by the Pennsylvania Department of Education.

Recommendation – While we recognize the fact that the School has hired a Federal Programs Coordinator since the start of the audit process, the management of the School should develop an adequately trained and knowledgeable staff that understand the requirements of all federal programs; in particular, the Federal Programs Director, or a similar position, should be filled as soon as possible to ensure adequate oversight of the School's federal programs.

Action Taken – As stated above, Agora Cyber Charter School has hired a Federal Programs Director who will oversee this area of responsibility and ensure that the reporting deadlines are met and the approved policies and procedures are followed. Please see the list of approved policies and procedures.

APPROVED LIST OF POLICIES AND PROCEDURES:

1. Special Purpose Funds policy
2. Bank Accounts policy
3. Budget Preparation policy
4. Credit Card/Debit Card policy
5. Allowability of Costs-Federal Programs policy
6. Budget Planning policy
7. Common Trusts for Gifts and Grants policy
8. Federal Fiscal Compliance policy
9. Finances policy
10. Internal Controls policy
11. Payroll Authorization policy
12. Financial Reporting policy
13. Public Charter School Audit policy
14. Administration of Federal Funds policy
15. Budget Monitoring policy
16. Cash Management-Federal Funds policy
17. Disqualification, Disbarment, and Suspension of Bids policy
18. Purchase Budget policy
19. Investments policy
20. Per Pupil Allotment policy
21. Gifts, Grants, and Donations policy
22. Payment of Claims policy
23. Petty Cash policy
24. Purchases Subject to Bid policy