

**YOUNG SCHOLARS FREDERICK DOUGLASS
CHARTER SCHOOL**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2014)**

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED JUNE 30, 2015**

INDEPENDENT AUDITORS' REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	9
STATEMENT OF ACTIVITIES	10
BALANCE SHEET – GOVERNMENTAL FUNDS	11
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	12
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS	13
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	14
NOTES TO FINANCIAL STATEMENTS	15
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (UNAUDITED)	29
SCHEDULES OF PROPORTIONATE SHARE OF PSERS NET PENSION LIABILITY AND CONTRIBUTIONS (UNAUDITED)	30
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	31
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	33
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	34
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	36
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	39

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Young Scholars Frederick Douglass Charter School
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Young Scholars Frederick Douglass Charter School (a nonprofit organization) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Young Scholars Frederick Douglass Charter School as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2015, the Young Scholars Frederick Douglass Charter School adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions and the related GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. As a result of the implementation of these standards, Young Scholars Frederick Douglass Charter School reported a restatement for the change in accounting principle (see Note 8). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of revenues, expenditures and changes in fund balance, budget and actual, and schedule of proportionate share of PSERS net pension liability and contributions on pages 4 through 8 and page 29 and 30, 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, which 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.

Report on Comparative Information

We have previously audited Young Scholars Frederick Douglass Charter School 2014's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 10, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Young Scholars Frederick Douglass Charter School's basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 December 7, 2015, on our consideration of the Young Scholars Frederick Douglass 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Young Scholars Frederick Douglass Charter School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 7, 2015

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2015**

The Board of Trustees of the Young Scholars Frederick Douglass 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, 2015. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- Total revenues decrease \$98,401 to \$10,524,769, mainly due to a reduction in funding from state sources during the year.
- At the close of the current fiscal year, the School reports an ending net position of (\$12,754,538). This net position (deficit) balance represents a decrease in net position of \$14,490,065 for the year ended June 30, 2015 as a result of the implementation of GASB 68, Accounting and Financial Reporting for Pensions, for the School's Non-Employer pension plan called Public School Employees' Retirement System (PSERS). As a result of this implementation, the School had recorded a liability of its unfunded portion of this plan. Please refer to Note 8 of this report.
- The School's cash balance at June 30, 2015 was \$1,221,381, representing an increase of \$94,341 from June 30, 2014.

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, budgetary comparison and reporting required under *Government Auditing Standards* and OMB Circular A-133 compliance supplement.

Government-Wide Financial Statements

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

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

The *statement of activities* presents information showing how the School's net position changed during the most recent 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.

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2015**

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 one governmental fund – the general fund.

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.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred outflows of resources exceeded assets and deferred inflows of resources by (\$12,754,538) as of June 30, 2015.

	2015	2014
Current and Other Assets	\$ 1,852,071	\$ 2,095,850
Capital Assets	373,446	585,826
Total Assets	2,225,517	2,681,676
 Deferred Outflows	 758,936	 -
Current Liabilities	917,390	946,149
Long-Term Liabilities	13,181,000	-
Total Liabilities	14,098,390	946,149
 Deferred Inflows	 1,640,601	 -
 Net Position:		
Invested in Capital Assets	373,446	585,826
Unrestricted (Deficit)	(13,127,984)	1,149,701
Total Net Position (Deficit)	\$ (12,754,538)	\$ 1,735,527

* The 2014 Net Position balance has not been restated

The total cost of all programs and services was \$11,178,895. Total expenditures exceeded revenues, decreasing net position by \$654,126. However, ending net position decreased from the prior year by \$14,490,065 primarily due to a prior period adjustment relating to the implementation of the new GASB 68 standard.

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2015**

Government-Wide Financial Analysis (Continued)

The School's revenues are predominately from the School District of Philadelphia, based on the student enrollment.

	<u>2015</u>	<u>2014</u>
REVENUES		
Local Educational Agencies	\$ 8,557,513	\$ 8,341,180
State Sources	149,885	635,191
Federal Sources	1,690,497	1,503,361
Other Local Sources	<u>126,874</u>	<u>143,438</u>
 Total Revenues	 10,524,769	 10,623,170
EXPENDITURES		
Instruction	7,875,992	7,773,256
Instructional Staff Support	566,692	45,993
Administration Support	475,777	949,349
Business Services	926,705	902,761
Pupil Health	77,202	79,958
Operations and Maintenance	411,677	343,235
Transportation	-	-
Non-Instructional Support	273,156	-
Food Service	458,945	448,735
Student Activities	11,127	-
Amortization	(168,338)	-
Depreciation	<u>269,959</u>	<u>262,041</u>
 Total Expenditures	 <u>11,178,895</u>	 <u>10,805,328</u>
 Change in Net Position	 (654,126)	 (182,158)
 Net Position - Beginning of Year	 1,735,527	 1,917,685
 Prior Period Adjustment - Implementation of GASB Standard - See Note 8	 <u>(13,835,939)</u>	 <u>-</u>
 Net Position (Deficit) - Beginning, as Restated	 <u>(12,100,412)</u>	 <u>-</u>
 Net Position (Deficit) - End of Year	 <u><u>\$ (12,754,538)</u></u>	 <u><u>\$ 1,735,527</u></u>

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2015**

Governmental Fund

The focus of the School's *governmental funds* 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 funds, (the General Fund), reported an ending fund balance of \$934,681. For the year ended June 30, 2015, the School's expenditures (\$10,739,789) exceeded revenues (\$10,594,769) by \$215,020.

Governmental Fund Budgetary Highlights

Actual revenue exceeded budgeted revenue by \$230,775 due to higher than budgeted amounts from subsidies from federal sources and local educational agency assistance (based on increased enrollment for special education students).

Actual expenditures were higher than budgeted amounts by \$73,939 due to higher than budgeted amounts in both instruction and non-instructional service areas as a result of higher than budgeted expense for employee benefits and higher than budgeted facilities costs.

Capital Asset and Debt Administration

CAPITAL ASSETS

As of June 30, 2015, the School's investment in capital assets for its governmental activities totaled \$373,446 (net of accumulated depreciation). This investment in capital assets includes classroom and office leasehold improvements, equipment and furniture.

Major capital asset purchases during the year included \$35,614 in leasehold improvements, \$12,069 for equipment and \$9,896 for furniture.

Additional information on the School's capital assets can be found in Note 3 of this report.

DEBT

As of June 30, 2015 the School had no debt.

Economic Factors and Next Year's Budgets and Rates

The School's primary source of revenue, per pupil funding from School District of Philadelphia, is expected to decrease 0.5 percent from \$7,992 to \$7,950 per regular education student and increase 3.5 percent from \$23,293 to \$24,107 per special education student.

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2015**

Future Events That Will Financially Impact the School

Based on the version of the Commonwealth of Pennsylvania's budget currently being debated for passage, which includes substantial increases in education funding to districts, the School is anticipating that per pupil stipends may increase between 3% and 6% for the 2016-17 school year. As of July 1, 2015, the School engaged in a new management contract with Mastery Charter Schools.

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 Frederick Douglass Mastery Charter School, C/O Chief Financial Officer, Mastery Charter Schools, 5700 Wayne Avenue, Philadelphia, PA 19144.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2015
(WITH COMPARATIVE AT JUNE 30, 2014)

	2015	2014
ASSETS		
Cash	\$ 1,221,381	\$ 1,127,040
Federal Subsidies Receivable	593,749	599,828
State Subsidies Receivable	36,569	234,069
Other Receivables	-	1,000
Prepaid Expenses	372	133,913
Capital Assets, Net	373,446	585,826
Total Assets	2,225,517	2,681,676
DEFERRED OUTFLOWS OF RESOURCES		
Pension Deferred Outflows - See Note 8	758,936	-
LIABILITIES		
Accounts Payable	201,774	61,381
Accrued Salaries and Benefits Payable	541,018	882,236
Deferred Revenue	4,255	-
Related Party Payable, Net	170,343	2,532
Net Pension Liability	13,181,000	-
Total Liabilities	14,098,390	946,149
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflows - See Note 8	1,640,601	-
NET POSITION		
Net Investment in Capital Assets	373,446	585,826
Unrestricted (Deficit)	(13,127,984)	1,149,701
Total Net Position (Deficit)	\$ (12,754,538)	\$ 1,735,527

See accompanying Notes to Financial Statements.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

Functions	Expenses	Program Revenues		2015	2014
		Charges For Service	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
				Total Governmental Activities	Total Governmental Activities
Governmental Activities:					
Instruction	\$ 7,875,992	\$ -	\$ 1,194,862	\$ (6,681,130)	\$ (6,712,635)
Instructional Staff Support	566,692	-	-	(566,692)	(45,993)
Administration Support	475,777	-	-	(475,777)	(949,349)
Business Services	926,705	-	-	(926,705)	(902,761)
Non-Instructional Support	273,156	-	-	(273,156)	-
Pupil Health	77,202	-	14,000	(63,202)	(64,841)
Operations and Maintenance	411,677	-	-	(411,677)	(243,065)
Food Service	458,945	-	495,635	36,690	(5,995)
Student Activities	11,127	-	-	(11,127)	-
Amortization Expense	(168,338)	-	-	168,338	-
Depreciation Expense	269,959	-	-	(269,959)	(262,041)
Total	\$ 11,178,895	\$ -	\$ 1,704,497	(9,474,398)	(9,186,680)
General Revenues:					
Local Educational Agencies				8,557,513	8,341,180
State Grants and Reimbursements				135,885	519,904
Contributions				75,945	63,197
All Other Revenue				50,929	80,241
Total General Revenues				8,820,272	9,004,522
Change in Net Position				(654,126)	(182,158)
Net Position - Beginning of Year				1,735,527	1,917,685
Prior Period Adjustment - Implementation of GASB Standard - See Note 8				(13,835,939)	-
Net Position (Deficit) - Beginning, as Restated				(12,100,412)	-
Net Position (Deficit) - End of Year				\$ (12,754,538)	\$ 1,735,527

See accompanying Notes to Financial Statements.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS AT JUNE 30, 2014)

	General Fund	
	2015	2014
ASSETS		
Cash	\$ 1,221,381	\$ 1,127,040
Federal Subsidies Receivable	593,749	599,828
State Subsidies Receivable	36,569	234,069
Other Receivable	-	1,000
Prepaid Expenses	372	133,913
	<u>\$ 1,852,071</u>	<u>\$ 2,095,850</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	\$ 201,774	\$ 61,381
Accrued Salaries and Benefits Payable	541,018	882,236
Deferred Revenue	4,255	-
Related Party Payable, Net	170,343	2,532
Total Liabilities	<u>917,390</u>	<u>946,149</u>
FUND BALANCES		
Nonspendable Fund Balance	372	133,913
Unassigned Fund Balance	934,309	1,015,788
Total Fund Balances	<u>934,681</u>	<u>1,149,701</u>
Total Liabilities and Fund Balances	<u>\$ 1,852,071</u>	<u>\$ 2,095,850</u>

See accompanying Notes to Financial Statements.

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total Fund Balance for Governmental Funds - General Fund	\$ 934,681
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Total net position reported for governmental activities in the statement of net position is different because:

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

Capital Assets, Net	373,446
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The School's Net Pension Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:

Net Pension Liability	(13,181,000)
Deferred Inflows of Resources - Pension	758,936
Deferred Outflows of Resources - Pension	<u>(1,640,601)</u>

Total Net Position (Deficit) of Governmental Activities	<u>\$ (12,754,538)</u>
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YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	General Fund	
	2015	2014
REVENUES		
Local Educational Agencies Revenue	\$ 8,557,513	\$ 8,341,180
State Sources	149,885	635,191
Federal Sources	1,690,497	1,503,361
Other Revenue	126,874	143,438
Total Revenues	10,524,769	10,623,170
EXPENDITURES		
Instruction	8,070,955	7,819,249
Support Services	1,891,361	2,275,303
Non Instructional Services	719,894	448,735
Capital Outlay	57,579	172,063
Total Expenditures	10,739,789	10,715,350
NET CHANGE IN FUND BALANCE	(215,020)	(92,180)
Fund Balance - Beginning of Year	1,149,701	1,241,881
FUND BALANCE - END OF YEAR	\$ 934,681	\$ 1,149,701

See accompanying Notes to Financial Statements.

**YOUNG SCHOLARS FREDERICK DOUGLASS 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, 2015**

Net Change in Fund Balance - Total Governmental Funds \$ (215,020)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

	Capital Outlays	57,579
	Depreciation Expense	(269,959)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

	Change in Pension Expense	(395,064)
	Amortization Expense - Pension	<u>168,338</u>

Change in Net Position of Governmental Activities \$ (654,126)

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The Young Scholars Frederick Douglass Charter School (the School) was formed as a Pennsylvania nonprofit corporation in July 2010. The School was granted a charter by the Commonwealth to operate an independent public school for a term from July 1, 2010 to June 30, 2015, in accordance with Pennsylvania Act 22 of 1997. The charter school was formed as part of the School District of Philadelphia - School Reform Commission Renaissance Schools Initiative for the education, operation, and management of the Frederick Douglass Elementary School, which operates grades kindergarten through eighth.

Young Scholars Frederick Douglass Charter School is a charter school which has financial accountability and control over all activities related to the students' education. The School receives funding from local, state, and federal government resources and must comply with the requirement of these funding sources. The School, however, is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement. In addition, there are no component units as defined by GASB.

On July 1, 2015, the School was granted a new charter by the Commonwealth as Frederick Douglass Mastery Charter School for a term of July 1, 2015 to June 30, 2020.

Basis of Presentation

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 GASB has issued a codification of governmental accounting and financial reporting standards.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information totals. 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 year ended June 30, 2014, from which the summarized information was derived.

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

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by 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 180 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.

Method of Accounting

Accounting Standards requires a statement of net position, a statement of activities and changes in net position. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted.

These calculations are defined as follows:

- Net Investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of the net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. The School presently has not incurred any related debt.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Method of Accounting (Continued)

- Restricted – This component of net position consists of constraints placed on net 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. The School presently has no restricted net position.

- Unrestricted net position – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to inventory, prepaid expenses, long term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances represent resources segregated from the unassigned fund balance. Committed fund balances are established and modified by a resolution approved by the Board of Trustees. Assigned fund balances are intended by the School to be used for specific purposes, but are neither restricted nor limited. Unassigned fund balances are considered the remaining amounts.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance are available, it is the School’s policy to use restricted first, then unrestricted fund balance. When expenditures are incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the School’s policy to use committed first, then assigned, and finally unassigned amounts.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. 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. The original budget was filed and accepted by the Labor, Education and Community Services Comptroller’s Office in July 2014. No revisions to the original budget were required. The original budget is reported as the final budget. The budget is required supplementary information.

Actual revenue and expenditure amounts were above budgeted revenue and expenditures by \$230,775 and \$73,939, respectively

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Use of Estimates

The preparation of financial statements in conformity with 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. At times, cash in bank may exceed FDIC insurable limits.

Cash

The School's cash is considered to be cash on hand and demand deposits.

Federal and State Subsidies Receivable

Federal and state subsidies receivable consist of amounts due from the Pennsylvania Department of Education for federal grants and state subsidy programs. Federal and state subsidies receivable are stated at the amount management expects to collect from outstanding balances. As of June 30, 2015, no allowance for doubtful accounts was deemed warranted based on historical experience.

Other Receivable

Other receivables include grants and other non-contract receivables. The School provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. As of June 30, 2015, the School had determined all other receivables to be collectible; no allowance for these receivables was recorded.

Capital Assets

Capital assets are reported in the government-wide financial statements, and include leasehold improvements, equipment and furniture. 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. The School will capitalize any asset purchased whose cost is greater than \$2,500. Capital assets of the School are depreciated using the straight-line method over the useful lives of the assets. The estimated useful life of furniture and equipment is five years. Leasehold improvements are being depreciated over the remaining life of the lease.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Pension

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

General Information about the Pension Plan

Plan Description

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

Benefits Provided

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F).

To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, or the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Pensions (Continued)

General Information about the Pension Plan (Continued)

Benefits Provided (Continued)

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

Contributions

Member Contributions:

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

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

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

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

Employer Contributions:

The employers contractually required contribution rate for fiscal year ended June 30, 2015 was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the employer were \$758,936 for the year ended June 30, 2015.

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 CASH

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School does not have a policy for custodial credit risk. As of June 30, 2015, \$977,159 of the School's bank balance of \$1,227,159 was exposed to custodial credit risk as follows:

Cash Exposed to Custodial Risk (Uninsured and Collateralized Amount)	\$ 977,159
Plus: Insured Amount	250,000
Less: Outstanding Checks	(6,833)
Plus: Deposits in Transit	<u>-</u>
Carrying Amount - Bank Balances	1,220,326
Plus: Petty Cash	<u>1,055</u>
Total Cash Per Financial Statements	<u><u>\$ 1,221,381</u></u>

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Leasehold Improvements	\$ 741,465	\$ 35,614	\$ -	\$ 777,079
Equipment	382,197	12,069	-	394,266
Furniture and Fixtures	186,544	9,896	-	196,440
Total	<u>1,310,206</u>	<u>57,579</u>	<u>-</u>	<u>1,367,785</u>
Less: Accumulated Depreciation	<u>724,380</u>	<u>269,959</u>	<u>-</u>	<u>994,339</u>
Capital Assets, Net	<u><u>\$ 585,826</u></u>	<u><u>\$ (212,380)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 373,446</u></u>

Depreciation expense for the year ended June 30, 2015 was \$269,959 and is reported in the statement of activities.

NOTE 4 LOCAL EDUCATIONAL AGENCIES REVENUE

Charter schools are funded by the local public school district in which each student resides. The rate per student is determined annually and is based on the budgeted total expenditure per average daily membership of the prior school year for each school district. The majority of the students for the School reside in Philadelphia. For the year ended June 30, 2015 the rate for the School District of Philadelphia was \$7,990 per year for regular education students and \$23,287 for special education students. The annual rate is paid monthly by the School District of Philadelphia and is prorated if a student enters or leaves during the year. Total revenue from the School District of Philadelphia was \$8,557,513 for the fiscal year ended June 30, 2015.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAMS

The School participates in numerous state and federal grant and reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and reimbursement programs for retirement expense, facility lease costs and health services 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 and reimbursement programs, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2015 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.

NOTE 6 OPERATING LEASES

The School leased space within Frederick Douglass Elementary School, 2118 W. Norris Street, Philadelphia, Pennsylvania under a licensing agreement with the School District of Philadelphia. Under the terms of this agreement, the School will provide all utility, janitorial, building engineering and security services for a four year term which expired June 30, 2015. The School was required to pay a monthly license payment of \$15,366 through June 30, 2015. As of July 1, 2015, a new license agreement was entered into between Frederick Douglass Mastery Charter School and the School District of Philadelphia.

The School also leases office equipment for use in operations under operating lease agreements expiring on July 31, 2016.

Future minimum payments under operating leases as of June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Equipment</u>
2016	\$ 37,824
2017	6,304
Total	<u>\$ 44,128</u>

Rental expense for the facility lease and rental and maintenance expenses for the equipment lease amounted to \$181,312 and \$69,555, respectively, for the year ended June 30, 2015.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 RETIREMENT PLAN

The School offers a defined contribution plan under Section 403(b) of the Internal Revenue Code, which employees of the School can elect to contribute. Employees who do not participate in the PSERS retirement plan, can contribute an amount as determined by the Internal Revenue Code of their qualified compensation to the plan. The mandatory employer contribution is based on 5% of the eligible employee's compensation. For the year ended June 30, 2015, the School contributed \$64,915 to the defined contribution plan under Section 403(b).

NOTE 8 PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The employer's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the employer's proportion was 0.0333 percent, which was a decrease of 0.0021 percent from its proportion measured as of June 30, 2013.

In prior years, the School had not recognized its portion of the net pension obligation of Public School Employees' Retirement System (PSERS). As of July 1, 2014, the School had implemented GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), where the portion of Young Scholars Frederick Douglass Charter School's portion of this pension liability and associated expense was needed to be recorded through June 30, 2014. Under generally accepted accounting principles, pension expense should be recognized at the time when the expense had incurred and an associated liability should be recorded. Accordingly, a prior period adjustment is required to reflect the amount of net pension expense from the System which existed as of the date of the School's inception.

As of July 1, 2014, net position has been restated as follows:

	Unrestricted	Net Investment in Capital Assets	Total
Net Position, July 1, 2014, as Previously Reported	\$ 1,149,701	\$ 585,826	\$ 1,735,527
To Record Net Pension Liability Due to PSERS	<u>(13,835,939)</u>	<u>-</u>	<u>(13,835,939)</u>
Net Position (Deficit), July 1, 2014, as Restated	<u>\$ (12,686,238)</u>	<u>\$ 585,826</u>	<u>\$ (12,100,412)</u>

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

For the year ended June 30, 2015, the employer recognized pension expense of \$1,154,000. At June 30, 2015, the employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual Investment Earnings	\$ -	\$ 1,025,796
Changes in proportions		942,000
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	9,481
Contributions Subsequent to the Measurement Date	758,936	-
	<u>\$ 758,936</u>	<u>\$ 1,977,277</u>

\$758,936 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ended June 30</u>	<u>Amount</u>
2016	\$ (403,838)
2017	(403,838)
2018	(403,838)
2019	(403,838)
2020	(25,249)
	<u>\$ (1,640,601)</u>

Actuarial Assumptions

The total pension liability as of June 30, 2014 was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3%

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Actuarial Assumptions (Continued)

- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%.
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Markets Global Equity	19%	5.0%
Private Markets (Equity)	21%	6.5%
Private Real Estate	13%	4.7%
Global Fixed Income	8%	2.0%
U.S. Long Treasuries	3%	1.4%
TIPS	12%	1.2%
High Yield Bonds	6%	1.7%
Cash	3%	0.9%
Absolute Return	10%	4.8%
Risk Parity	5%	3.9%
MLP's/Infrastructure	3%	5.3%
Commodities	6%	3.3%
Financing (LIBOR)	-9%	1.1%
	<u>100%</u>	

The above was the Board’s adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

Discount Rate

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

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Employer's Proportionate Share of the Net Pension Liability	\$ 16,441,000	\$ 13,181,000	\$ 10,397,000

Pension Plan Fiduciary Net Position

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

NOTE 9 RELATED PARTY TRANSACTIONS

Scholar Academies

The School and Scholar Academies (a non-profit organization) are considered related parties as a result of common management and management services provided to the School. The term of this agreement is from July 1, 2010 to June 30, 2015. A management service fee is calculated based on 10% of the School's per pupil charter payment (as highlighted in the academic and business service agreement) authorized to be paid under its charter contract with the School District of Philadelphia, including any increases therein, from and after the effective date of any such increases by the authorizer, State or by the Federal government, directly or indirectly. During the year ended June 30, 2015, the School had incurred \$926,364 in management service fees, which is included in the business services function total. As of July 1, 2015, the School executed a new management contract with Mastery Charter Schools.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 RELATED PARTY TRANSACTIONS (CONTINUED)

Scholar Academies (Continued)

The School receives contributions from Scholar Academies for the purposes of assisting in operational needs of the School. The School did not receive any contributions from Scholar Academies for the year ended June 30, 2015.

On July 1, 2014, the School had entered into a service agreement with Scholar Academies (a non-profit organization) to provide services of a School Psychologist to the School. The Scholar Academies will employ the School Psychologist to provide services to the schools with a prorated portion of the School Psychologist's annual salary, based on the relative number of evaluations at the school, allocated monthly. This service agreement expires on June 30, 2015. At June 30, 2015, the School incurred \$51,889 in fees under this agreement.

Young Scholars Charter School

The School and Young Scholars Charter School are considered related parties as a result of common members of the board and the management of the schools. As of June 30, 2015, the School has an amount of \$4,348 due to Young Scholars Charter School. As of July 1, 2015, the School no longer shares board or management with Young Scholars Charter School.

DC Scholars Public Charter School

The School and DC Scholars Public Charter School, Inc. are considered related parties as a result of common management of the schools. As of June 30, 2015, the School did not have a balance due from or to DC Scholars Public Charter School, Inc. As of July 1, 2015, the School no longer shares board or management with DC Scholars Public Charter School.

Young Scholars Kenderton Charter School

The School and Young Scholars Kenderton Charter School are considered related parties as a result of common members of the board and the management of the schools. As of June 30, 2015, the School has an amount of \$1,019 due from Young Scholars Kenderton Charter School. As of July 1, 2015, the School no longer shares board or management with Young Scholars Kenderton Charter School.

Paul Robeson Charter School for the Humanities

The School and Paul Robeson Charter School for the Humanities are considered related parties as a result of common management of the schools. As of July 1, 2015, the School no longer shares board or management with Paul Robeson Charter School for the Humanities.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 RELATED PARTY TRANSACTIONS (CONTINUED)

From time to time Young Scholars Frederick Douglass Charter School and its related parties incur expenses on behalf of each other. Consequently, amounts due (to) from related parties for the year ended June 30, 2015 consist of the following:

Scholar Academies	\$ (167,014)
Young Scholars Charter School	(4,348)
Young Scholars Kenderton Charter School	1,019
Total	<u>\$ (170,343)</u>

NOTE 10 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. There has been no significant reduction in insurance coverage from the previous year in any of the School's policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

NOTE 11 NEW ACCOUNTING STANDARDS

In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application ("GASB 72"). The objectives of this Statement are to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures around fair value measurements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2015. The School has not yet completed the process of evaluating the impact of GASB 72 on its financial statements.

In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments ("GASB 76"). The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted. The School has not yet completed the process of evaluating the impact of GASB 76 on its financial statements.

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND (UNAUDITED)
YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Educational Agency Assistance	\$ 8,337,413	\$ 8,337,413	\$ 8,557,513	\$ 220,100
State Sources	138,050	138,050	149,885	11,835
Federal Sources	1,397,531	1,397,531	1,690,497	292,966
Other Local Sources	421,000	421,000	126,874	(294,126)
Total Revenues	<u>10,293,994</u>	<u>10,293,994</u>	<u>10,524,769</u>	<u>230,775</u>
EXPENDITURES				
Instruction	7,832,239	7,832,239	8,070,955	238,716
Support Services	2,352,971	2,352,971	1,891,361	(461,610)
Non Instructional Services	405,600	405,600	719,894	314,294
Capital Outlay	75,040	75,040	57,579	(17,461)
Total Expenditures	<u>10,665,850</u>	<u>10,665,850</u>	<u>10,739,789</u>	<u>73,939</u>
NET CHANGE IN FUND BALANCE	<u>\$ (371,856)</u>	<u>\$ (371,856)</u>	(215,020)	<u>\$ 156,836</u>
Fund Balance - Beginning of Year			<u>1,149,701</u>	
FUND BALANCE - END OF YEAR			<u>\$ 934,681</u>	

YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL

**Schedule of Proportionate Share of PSERS Net Pension Liability (NPL) (Unaudited)
Determined as of June 30, 2014, PSERS Measurement Date
(in Thousands)**

Fiscal Year	PSERS Net Pension Liability			School's Covered Employee Payroll	School's Proportionate Share of NPL as a % of Covered-Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
	School's Proportion	School's Proportion Share	Total			
2014/15	0.03330%	\$ 13,181	\$ 13,181	\$ 4,247	310%	57.2%

**PSERS Schedule of Contributions (Unaudited)
(in thousands)**

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY 2014/15	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a % of Covered-Employee Payroll
2014/15	\$ 759	\$ 759	\$ -	\$ 4,247	17.9%

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

Federal Grantor/ Pass-Through Grantor/ Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award	Total Received for the Year	Accrued or (Deferred) Revenue at 7/1/14	Revenue Recognized	Federal Disbursements/ Expenditures	Accrued or (Deferred) Revenue at 6/30/15
<u>U.S. Department of Education</u>										
Pass-Through Pennsylvania Department of Education										
Title I - Improving Basic Programs	I	84.010	013-14-1093	07/02/13 - 09/30/14	\$ -	\$ 352,744	\$ 352,744	\$ -	\$ -	\$ -
Title I - Improving Basic Programs	I	84.010	013-15-1093	07/01/14 - 09/30/15	514,258	470,942	-	510,848	510,848	39,906
Program Improvement - Set Aside	I	84.010	042-13-1093	04/30/13 - 09/30/14	-	7,823	7,823	-	-	-
Program Improvement - Set Aside	I	84.010	042-15-1093	07/28/14 - 09/30/15	79,699	74,386	-	79,699	79,699	5,313
Title II - Improving Teacher Quality	I	84.367	020-13-1093	07/02/13 - 09/30/14	-	28,140	28,140	-	-	-
Title II - Improving Teacher Quality	I	84.367	020-13-1093	07/01/14 - 09/30/15	38,339	35,729	-	38,339	38,339	2,610
Twenty-First Century Community Learning Centers	I	84.287	4100060887	10/1/13 - 9/30/14	-	124,128	39,000	85,128	85,128	-
Twenty-First Century Community Learning Centers	I	84.287	4100060887	10/1/14 - 9/30/15	462,996	102,022	-	171,393	171,393	69,371
Twenty-First Century Community Learning Centers	I	84.287	4100060887	10/1/14 - 9/30/15	381,400	-	-	148,656	148,656	148,656
Pass-Through School District of Philadelphia:										
Individuals with Disabilities Education Act Part B	I	84.027	N/A	07/1/13 - 06/30/14	-	49,507	48,899	608	608	-
Individuals with Disabilities Education Act Part B	I	84.027	N/A	07/1/14 - 06/30/15	156,326	-	-	156,326	156,326	156,326
Total U.S. Department of Education					1,633,018	1,245,421	476,606	1,190,997	1,190,997	422,182
<u>U.S. Department of Agriculture</u>										
Pass-Through Pennsylvania Department of Education										
<i>Child Nutrition Cluster:</i>										
School Breakfast Program	I	10.553	126-51-854-7	07/01/13-06/30/14	-	37,653	37,653	-	-	-
School Breakfast Program	I	10.553	126-51-854-7	07/01/14-06/30/15	148,765	98,934	-	148,765	148,765	49,831
National School Lunch Program	I	10.555	126-51-854-7	07/01/13-06/30/14	-	85,569	85,569	-	-	-
National School Lunch Program	I	10.555	126-51-854-7	07/01/14-06/30/15	346,870	225,134	-	346,870	346,870	121,736
Total U.S. Department of Agriculture					495,635	447,290	123,222	495,635	495,635	171,567

See accompanying Notes to Schedule of Expenditures of Federal Awards

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2015**

Federal Grantor/ Pass-Through Grantor/ Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant Period Beginning/ Ending Date	Program or Award	Total Received for the Year	Accrued or (Deferred) Revenue at 7/1/13	Revenue Recognized	Federal Disbursements/ Expenditures	Accrued or (Deferred) Revenue at 6/30/14	
Total Financial Assistance - Forwarded						\$ 2,128,653	\$ 1,692,711	\$ 599,828	\$ 1,686,632	\$ 1,686,632	\$ 593,749
<u>U.S. Department of Health and Human Services</u>											
Pass-Through Pennsylvania Department of Human Services											
Medical Assistance	I	93.778	N/A	07/01/14-06/30/15	-	3,864	-	3,864	3,864	-	
Total U.S. Department of Health and Human Services						-	3,864	-	3,864	3,864	-
Total Financial Assistance						<u>\$ 2,128,653</u>	<u>\$ 1,696,575</u>	<u>\$ 599,828</u>	<u>\$ 1,690,496</u>	<u>\$ 1,690,496</u>	<u>\$ 593,749</u>

D - Direct Funding

I - Indirect Funding

S - State Share

See accompanying Notes to Schedule of Expenditures of Federal Awards

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

NOTE A GENERAL INFORMATION

The accompanying Schedule of Expenditures of Federal Awards presents the activities of the federal financial assistance programs of Young Scholars Frederick Douglass Charter School (the School). Financial awards received directly from federal agencies, as well as financial assistance passed through other governmental agencies or non-profit organizations, are included in the schedule.

NOTE B BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE C RELATIONSHIP TO FINANCIAL STATEMENTS

The Schedule of Expenditures of Federal Awards presents only a selected portion of the activities of the School. It is not intended to, and does not, present either the balance sheet or revenue, expenditures, and changes in fund balances of governmental funds. The financial activity for the aforementioned awards is reported in the School's statement of revenues and expenditures, and changes in fund balance of governmental funds.

INDEPENDENT AUDITORS' 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*

Board of Trustees
Young Scholars Frederick Douglass Charter School
Philadelphia, 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 general fund of Young Scholars Frederick Douglass Charter School, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Young Scholars Frederick Douglass Charter School's basic financial statements, and have issued our report thereon dated December 7, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule for findings and responses that we consider to be a significant deficiency [2015-0001].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Young Scholars Frederick Douglass Charter 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*.

Young Scholars Frederick Douglass Charter School’s Response to Findings

Young Scholars Frederick Douglass Charter School’s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Young Scholars Frederick Douglass Charter 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 it.

Purpose of this Report

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



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 7, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Young Scholars Frederick Douglass Charter School
Philadelphia, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Young Scholars Frederick Douglass Charter School's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Young Scholars Frederick Douglass Charter School's major federal programs for the year ended June 30, 2015. Young Scholars Frederick Douglass Charter School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Young Scholars Frederick Douglass Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Young Scholars Frederick Douglass Charter 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 Young Scholars Frederick Douglass Charter School's compliance.

Opinion on Each Major Federal Program

In our opinion, Young Scholars Frederick Douglass Charter 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, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items FA 2015-0001. Our opinion on each major federal program is not modified with respect to these matters.

Young Scholars Frederick Douglass Charter School's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Young Scholars Frederick Douglass Charter 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 Young Scholars Frederick Douglass Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Young Scholars Frederick Douglass Charter 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Young Scholars Frederick Douglass Charter School's internal control over compliance.

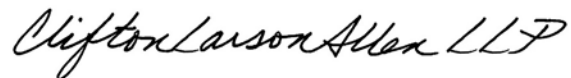
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 first paragraph of this section 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items FA 2015-0001 to be a significant deficiency.

Board of Trustees
Young Scholars Frederick Douglass Charter School

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 7, 2015

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

Section I – Summary of Auditors’ Results

Financial Statements

- | | | |
|---|------------------|--------------------|
| 1. Type of auditors’ report issued: | Unmodified | |
| 2. Internal control over financial reporting: | | |
| • Material weakness(es) identified? | _____yes | <u> X </u> no |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | <u> X </u> yes | _____none reported |
| 3. Noncompliance material to financial statements noted? | _____yes | <u> X </u> no |

Federal Awards

- | | | |
|---|------------------|--------------------|
| 1. Internal control over major federal programs: | | |
| Material weakness(es) identified? | _____yes | <u> X </u> no |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | <u> X </u> yes | _____none reported |
| 2. Type of auditor’s report issued on compliance for major federal programs: | Unmodified | |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | <u> X </u> yes | _____no |

Identification of Major Federal Programs

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Pass-Through Pennsylvania Department of Education – Title I Improving Basic Programs

84.287

Pass-Through Pennsylvania Department of Education – Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between Type A or Type B programs was:

\$ 300,000

Auditee qualified as low-risk auditee pursuant to OMB Circular A-133?

_____yes X no

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015**

Section II – Financial Statement Findings

2015-0001

Type of Finding:

- Significant Deficiency in Internal Control over Financial Reporting

Criteria:

Management is responsible for the accuracy and completeness of documentation which represents balances in the financial statements and related disclosures in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB).

Condition:

In performance of audit procedures encompassing the School's payroll cycle, where we compared an employee's gross pay period to a recalculation of the employee's authorized wage rate multiplied by the number of hours worked, we noted three instances where the gross wages did not agree with the recalculation. We communicated these discrepancies to management and management either identified the variances as incorrect or was unable to explain the reasoning behind these variances.

Effect:

Controls over financial reporting are not adequate to ensure the accurate preparation of financial statements and related disclosures in accordance with GAAP and GASB.

Recommendation:

To ensure both completeness and accuracy within the payroll cycle, we recommend management perform monthly audits of the payroll transactions focusing on the accuracy of data, including the accuracy of an employee's wage rates, within the payroll system to the records of the School.

Corrective Action Plan:

Management will perform monthly audits of payroll transactions, including ensuring the accuracy of employees' wage rates.

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015**

Section III – Findings and Questioned Costs – Major Federal Programs

FA 2015-0001

U.S. Department of Education

Twenty-First Century Community Learning Centers

CFDA Number: 84.287

Pass Through Agency: Commonwealth of Pennsylvania, Department of Education

Pass-Through Numbers: 4100060887

Award Period: October 1, 2014 to September 30, 2015

U.S. Department of Education

Title I – Improving Basic Programs

CFDA Number: 84.010

Pass Through Agency: Commonwealth of Pennsylvania, Department of Education

Pass-Through Numbers: FA-013-15-1093 A

Award Period: July 1, 2014 – September 30, 2015

Type of Finding:

- Significant Deficiency over Compliance

Criteria:

OMB Circular A-133 requires compliance with the provisions of allowable costs and activities. The School is responsible for having internal controls designed to ensure compliance with those provisions.

Condition/Context:

In performance of audit procedures encompassing the School's payroll cycle, where we compared an employee's gross pay period to a recalculation of the employee's authorized wage rate multiplied by the number of hours worked, we noted three instances where the gross wages did not agree with the recalculation. We communicated these discrepancies to management and management either identified the variances as incorrect or was unable to explain the reasoning behind these variances.

Questioned Costs:

N/A

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

FA 2015-001 (Continued)

Cause:

The controls over allowable costs are not adequate to ensure compliance over major federal award programs.

Effect:

Noncompliance to the allowable cost and activities requirements as described in the grant awards and OMB Circulars A-133 and A-122 could ultimately lead to the disallowance of certain expenditures.

Recommendation:

To ensure both completeness and accuracy within the payroll cycle, we recommend management perform monthly audits of the payroll transactions focusing on the accuracy of data, including the accuracy of an employee's wage rates, within the payroll system to the records of the School.

Corrective Action Plan:

Management will perform monthly audits of payroll transactions, including ensuring the accuracy of employees' wage rates.

Section IV – Prior Audit Findings

FA 2014-0001

U.S. Department of Education

Twenty-First Century Community Learning Centers

CFDA Number: 84.287

Pass Through Agency: Commonwealth of Pennsylvania, Department of Education

Pass-Through Numbers: 4100060887

Award Period: October 1, 2013 to September 30, 2014

Type of Finding:

- Material Weakness over Compliance

Condition/Context:

The Commonwealth of Pennsylvania, Department of Education identified expenditures that are not allowable as part of the grant agreement with the Commonwealth of Pennsylvania, Department of Education.

**YOUNG SCHOLARS FREDERICK DOUGLASS CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2015**

Section IV – Prior Audit Findings (Continued)

FA 2014-001 (Continued)

Recommendation:

We recommend the School design controls to ensure an adequate review of contracts in the determination of which expenditures are allowable or unallowable by both the grant award and OMB Circular A-122 prior performing activities that the Commonwealth of Pennsylvania, Department of Education has considered to be unallowable.

Status of Corrective Action Plan:

In the performance of audit procedures over the School's Twenty-First Century Community Learning Centers grant, we observed that management has implemented procedures relating to the monitoring and review of all contracts, budgets and proposed purchases under the grant to ensure that they are allowable, and approving all reimbursement requests prior to their submission.