

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2014  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2013)**

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Mastery Charter School – Mann Elementary  
Philadelphia, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the general fund of Mastery Charter School – Mann Elementary, as of and for the year ended June 30, 2014, 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 Mastery Charter School – Mann Elementary as of June 30, 2014, 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.

***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 on pages 4 through 7 and page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Report on Summarized Comparative Information*

We have previously audited the Mastery Charter School – Mann Elementary's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements of the governmental activities and general fund in our report dated December 10, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, 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 Mastery Charter School – Mann Elementary'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 relates 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.

Board of Trustees  
Mastery Charter School – Mann Elementary

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2014 on our consideration of Mastery Charter School – Mann Elementary’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 Mastery Charter School – Mann Elementary’s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 11, 2014

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2014**

The Board of Trustees of Mastery Charter School – Mann Elementary (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, 2014. We encourage readers to consider the information presented here in conjunction with the School’s financial statements.

**Financial Highlights**

- Total revenues increased by \$521,953 to \$6,929,382 due to increases in school subsidies, state sources and other local sources.
- At the close of the current fiscal year, the School reports an ending general fund balance of \$2,296,896. The general fund balance increased by \$635,251 from the previous year end general fund balance as the result of the net change in fund balance for the year ended June 30, 2014.
- The School’s cash balance at June 30, 2014 was \$2,906,347 representing an increase of \$735,641 from June 30, 2013.

**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, required supplementary schedule and reporting requirements under *Government Auditing Standards* and OMB Circular A-133.

***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 liabilities, 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.

***Fund Financial Statements***

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

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2014**

**Overview of the Financial Statements (Continued)**

***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**

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the School, assets exceeded liabilities by \$2,701,346 as of June 30, 2014.

	<u>2014</u>	<u>2013</u>
Total Assets	\$ 3,616,665	\$ 2,978,009
Total Liabilities	<u>915,319</u>	<u>770,428</u>
Total Net Position	<u>\$ 2,701,346</u>	<u>\$ 2,207,581</u>

The School’s revenues are predominately from the School District of Philadelphia, based on the student enrollment and awards from federal sources.

	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>		
Local Educational Agencies	\$ 5,694,643	\$ 5,101,779
State Sources	275,637	220,023
Federal Sources	766,983	977,371
Other Grants and Contributions	21,715	10,667
Other Local Sources	<u>170,404</u>	<u>97,589</u>
Total Revenues	6,929,382	6,407,429
<b>EXPENDITURES</b>		
Instruction	3,140,099	2,914,808
Special Education	804,128	813,503
Student Support Services	466,851	406,950
Instruction Support Services	7,836	4,073
Administration Support	854,345	841,474
Pupil Health	50,255	46,197
Business Services	53,746	56,375
Operations and Maintenance	446,470	373,201
Student Transportation Services	306	-
Other Support Services	64,766	55,599
Student Activities	26,168	41,022
Food Services	278,064	-
Interest Expense	9,538	3,612
Depreciation Expense	<u>233,045</u>	<u>338,173</u>
Total Expenditures	<u>6,435,617</u>	<u>5,894,987</u>
Change in Net Position	493,765	512,442
Net Position, Beginning	<u>2,207,581</u>	<u>1,695,139</u>
Net Position, Ending	<u>\$ 2,701,346</u>	<u>\$ 2,207,581</u>

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2014**

**Government Fund**

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

The School’s governmental fund, (the General Fund), reported an ending fund balance of \$2,296,896. For the year ended June 30, 2014, the School’s revenues and other financing sources (\$7,075,746) exceeded expenditures (\$6,440,495) by \$635,251.

**General Fund Budgetary Highlights**

Actual revenues were less than Budgeted revenues by \$47,953 due to lower than budgeted local educational agencies, state and federal sources. Actual expenditures were less than budgeted expenditures by \$291,983 due to lower than budgeted support expenditures.

**Capital Asset**

As of June 30, 2014, the School’s investment in capital assets for its governmental activities totaled \$404,450 (net of accumulated depreciation and related debt). This investment in capital assets includes leasehold improvements, furniture and fixtures and equipment.

Major capital asset purchases during the year included the following:

- Capital expenditures of \$7,835 for equipment
- Capital expenditures of 3,500 for software
- Capital expenditures of \$41,928 for leasehold improvements
- Capital expenditures of \$146,364 for capital leases

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

**LONG-TERM DEBT**

As of June 30, 2014, the School has long-term debt of \$142,262 for capital lease obligations.

**Economic Factors and Next Year’s Budgets and Rates**

The School’s primary source of revenue, the School District of Philadelphia subsidy, will decrease 5% from \$8,419 to \$7,996 for regular education students and increase 3% from \$22,312 to \$23,073 for special education students. In addition, the PSERS charter subsidy from the Commonwealth of PA was eliminated as of July 1, 2014. The decrease in regular education plus the PSERS subsidy cut will have a significant financial impact in future years.

**Future Events that will Financially Impact the School**

Due to the budget deficits at the School District of Philadelphia, we expect funding cuts will occur in future years.



**MASTERY CHARTER SCHOOL – MANN ELEMENTARY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2014**

**Contacting the School’s Financial Management**

The financial report is designed to provide interested parties a general overview of the School’s finances. Questions regarding any of the information provided in this report should be addressed to the Chief Financial Officer, Mastery Charter School – Pickett Campus, 5700 Wayne Avenue, Philadelphia, PA 19144.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS AT JUNE 30, 2013)**

	Governmental Activities	
	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 2,906,347	\$ 2,170,706
State Subsidies Receivable	62,085	56,850
Federal Subsidies Receivable	67,117	47,276
Other Receivables	15,279	122,519
Prepaid Expenses	19,100	528
Due from MCS Foundation	25	-
Total Current Assets	3,069,953	2,397,879
<b>CAPITAL ASSETS, NET</b>	546,712	580,130
Total Assets	3,616,665	2,978,009
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Capital Lease Obligation - Current Portion	44,294	14,990
Accounts Payable	130,500	74,404
Accrued Expenses	638,810	599,801
Unearned Revenue	-	52,768
Due to Other Governmental Entities	3,747	9,261
Total Current Liabilities	817,351	751,224
<b>CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION</b>	97,968	19,204
Total Liabilities	915,319	770,428
<b>NET POSITION</b>		
Net Investment in Capital Assets	404,450	545,936
Unrestricted	2,296,896	1,661,645
Total Net Position	\$ 2,701,346	\$ 2,207,581

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)**

Functions	Expenses	Program Revenues Operating Grants and Contributions	2014 Net(Expense) Revenue and Changes in Net Position Total Governmental Activities	2013 Net(Expense) Revenue and Changes in Net Position Total Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 3,140,099	\$ 543,580	\$ (2,596,519)	\$ (1,937,437)
Special Education	804,128	-	(804,128)	(813,503)
Student Support Services	466,851	-	(466,851)	(406,950)
Instruction Support Services	7,836	-	(7,836)	(4,073)
Administration Support	854,345	-	(854,345)	(841,474)
Pupil Health	50,255	-	(50,255)	(46,197)
Business Services	53,746	-	(53,746)	(56,375)
Operations and Maintenance	446,470	-	(446,470)	(373,201)
Student Transportation Services	306	-	(306)	-
Other Support Services	64,766	-	(64,766)	(55,599)
Student Activities	26,168	-	(26,168)	(41,022)
Food Services	278,064	238,748	(39,316)	-
Interest Expense	9,538	-	(9,538)	(3,612)
Depreciation Expense	233,045	-	(233,045)	(338,173)
Total	<u>\$ 6,435,617</u>	<u>\$ 782,328</u>	(5,653,289)	(4,917,616)
<b>General Revenues:</b>				
Local Educational Agencies			5,694,643	5,101,779
State Grants and Reimbursements			263,118	220,023
Grants and Contributions			21,715	10,667
Other Local Revenue			163,230	90,741
Interest			4,348	6,848
Total General Revenues			<u>6,147,054</u>	<u>5,430,058</u>
Change in Net Position			493,765	512,442
Net Position - Beginning of Year			<u>2,207,581</u>	<u>1,695,139</u>
Net Position - End of Year			<u>\$ 2,701,346</u>	<u>\$ 2,207,581</u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS AT JUNE 30, 2013)**

	2014	2013
	General Fund	General Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 2,906,347	\$ 2,170,706
State Subsidies Receivable	62,085	56,850
Federal Subsidies Receivable	67,117	47,276
Other Receivables	15,279	122,519
Prepaid Expenses	19,100	528
Due from MCS Foundation	25	-
	<u>\$ 3,069,953</u>	<u>\$ 2,397,879</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 130,500	\$ 74,404
Accrued Expenses	638,810	599,801
Unearned Revenue	-	52,768
Due to Other Governmental Entities	3,747	9,261
Total Liabilities	<u>773,057</u>	<u>736,234</u>
<b>FUND BALANCE</b>		
Nonspendable to:		
Prepaid Expenses	19,100	528
Committed to:		
Designated for Future Budget Deficits	1,800,000	1,008,064
Designated for Facilities Improvements	250,000	250,000
Designated for Capital Projects	90,000	166,714
Designated for ASL Program	100,000	175,000
Unassigned	37,796	61,339
Total Fund Balance	<u>2,296,896</u>	<u>1,661,645</u>
Total Liabilities and Fund Balance	<u>\$ 3,069,953</u>	<u>\$ 2,397,879</u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014**

<b>Total Fund Balance for Governmental Funds</b>	\$ 2,296,896
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	546,712
Capital lease obligations used in governmental funds are not financial resources and, therefore, are not reported in the fund liabilities. The total capital lease obligations, both current and long-term, are reported in the statement of net position. Balances at year end are:	
	<u>(142,262)</u>
<b>Total Net Position of Governmental Activities</b>	<u><u>\$ 2,701,346</u></u>

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2014**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013)**

	2014	2013
	General Fund	General Fund
<b>REVENUES</b>		
Local Educational Agencies	\$ 5,694,643	\$ 5,101,779
State Sources	275,637	220,023
Federal Sources	766,983	977,371
Grants and Contributions	21,715	10,667
Other Local Revenue	166,056	90,741
Interest	4,348	6,848
Total Revenues	6,929,382	6,407,429
<b>EXPENDITURES</b>		
Instruction	3,948,332	3,745,021
Support Services	2,038,067	1,902,960
Non-Instructional Services	307,732	41,022
Capital Lease Expenditures	146,364	-
Total Expenditures	6,440,495	5,689,003
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	488,887	718,426
<b>OTHER FINANCING SOURCES AND USES</b>		
Proceeds from Capital Lease Obligation	146,364	-
<b>NET CHANGE IN FUND BALANCE</b>	635,251	718,426
Fund Balance - Beginning of Year	1,661,645	943,219
<b>FUND BALANCE - END OF YEAR</b>	\$ 2,296,896	\$ 1,661,645

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

**Net Change in Fund Balance - Total Governmental Funds** \$ 635,251

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.

Depreciation Expense	(233,045)
Capital Outlays	199,627

Governmental Funds report capital lease obligations proceeds as financing sources, while repayment is reported as expenditures. In the statement of net position, however, the capital lease obligations increases liabilities and does not affect the statement of activities and repayment of principal reduces the obligations. The net effect of these differences in the treatment of the capital lease obligations is as follows:

Capital Lease Obligations	<u>(108,068)</u>
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**Change in Net Position of Governmental Activities** \$ 493,765

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Background**

Mastery Charter School – Mann Elementary (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. During the year ended June 30, 2014, the School served approximately 545 students in grades kindergarten through six.

**Basis of Presentation**

The financial statements of the School have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing government 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 in total. 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, 2013 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 fund balance sheet and statement of governmental fund revenues, expenditures and changes in fund balance) report on the School's General Fund.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

*Government-wide Financial Statements:*

The 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.



**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

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

*Fund Financial Statements:*

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

The government reports the following major governmental fund:

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

**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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on net position 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.”

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**Method of Accounting (Continued)**

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to 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 amounts constrained for a specific purpose by a governmental entity using its highest level of decision-making authority. 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 committed. 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 currently 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 currently 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 U.S. 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; an original budget was filed and accepted by the Labor, Education and Community Services Comptroller's Office in June 2013. An amended budget was approved by the Board of Trustees in January 2014. The budget is required supplementary information.

**Use of Estimates**

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

**Concentration of Credit Risk**

Periodically, the School may maintain deposits in excess of the Federal Deposit Insurance Corporation's limit of \$250,000, with financial institutions. At times, cash in bank may exceed FDIC insurable limits.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**Significant Accounting Estimates—Self-Insured Claims**

As of July 1, 2011, the Mastery Charter Schools and the Network Support Team (“the Schools”) adopted the self-funded benefit payment plan (“the plan”). The Mastery Charter High School is the plan sponsor for the plan. The plan covers eligible employees/members and dependents of the Schools (current and future schools) as defined in the agreement. The Schools are primarily self-insured, up to certain limits, for employee group health claims. The Plan contains stop-loss insurance, which will reimburse the Plan for individual claims in excess of \$100,000 annually. The stop-loss insurance provides \$1,000,000 of coverage in addition to our aggregate annual claims limit of \$6,745,681 for the fiscal year 2014. The annual claims limit is based on the average enrollment of 807 lives times a monthly claims factor of \$697. The aggregate limit is the maximum that can be paid for all employees and dependents in a policy year.

During the year ended June 30, 2014, each school paid premiums to Mastery Charter High School based on 1) previous year’s claims and premiums experience, 2) actual claims for the year ended June 30, 2014 and 3) the estimated claims incurred but not reported. Such estimates were provided by the School’s benefits consultant. A self-insured claims liability for all schools for unpaid claims and the associated claim expenses, including an estimated amount for incurred but not reported losses, is reflected in the statement of position as an accrued liability.

The plan liability as of June 30, 2014 is \$1,400,068, and is included on Mastery Charter High School’s financial statements. Total expense under the program was approximately \$6,121,913, which includes Mastery Charter School – Mann Elementary’s portion of \$280,498 for the year ended June 30, 2014.

**Cash and Cash Equivalents**

The School’s cash is considered to be cash on hand, amounts held at financial institutions, and certificate of deposits that are readily convertible to known amounts of cash.

**Accounts Receivable**

Accounts receivable primarily consist of amounts due from the Pennsylvania Department of Education for federal and state subsidy programs. Accounts receivable are stated at the amount management expects to collect from outstanding balances. As of June 30, 2014, no allowance for doubtful accounts was deemed warranted based on historical experience.

**Prepaid Expenses**

Prepaid expenses include payments to vendors for services applicable to future accounting periods such as insurance premiums.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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

**Capital Assets**

Capital assets, which include property and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the assets except for leasehold improvements which are limited to the shorter of the life of the School's Charter or the estimated useful lives of the improvements. Software costs are depreciated over thirty-six months using the straight-line method.

**Income Tax Status**

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. No provision for income taxes has been established, as the School has no unrelated business activity.

**NOTE 2 CASH AND CASH EQUIVALENTS**

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School invests in repurchase agreements with its bank wherein the funds are secured by obligations of the U.S. Government or agencies or instrumentalities of the U.S. Government. As of June 30, 2014, \$1,189,264 of the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ -
Collateralized	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	1,189,264
Total Custodial Credit Risk	<u>\$ 1,189,264</u>

Reconciliation to the Financial Statements:

Custodial Credit Risk from Above	\$ 1,189,264
Plus: Insured Amount	1,748,578
Less: Outstanding Checks	(31,995)
Plus: Petty Cash	500
Total Cash Per Financial Statements	<u>\$ 2,906,347</u>

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 3 CAPITAL ASSETS**

Capital assets are stated at cost. Depreciation has been calculated on such assets using the straight line method over the following estimated lives:

Leasehold Improvements	5 Years
Equipment	5 Years
Furniture and Fixtures	7 Years
Software	3 Years
Capital Lease	5 Years

Capital asset activity for the year is summarized below:

Description	Balance July 01, 2013	Deletions	Additions	Balance June 30, 2014
Leasehold Improvements	\$ 498,042	\$ -	\$ 41,928	\$ 539,970
Furniture and Fixtures	417,999	-	-	417,999
Equipment	353,637	-	7,835	361,472
Software	68,715	-	3,500	72,215
Capital Lease	70,242	-	146,364	216,606
Total	1,408,635	-	199,627	1,608,262
Less: Accumulated Depreciation	828,505	-	233,045	1,061,550
Capital Assets, Net	<u>\$ 580,130</u>	<u>\$ -</u>	<u>\$ (33,418)</u>	<u>\$ 546,712</u>

**NOTE 4 CAPITAL LEASE OBLIGATIONS**

The School leases copiers under capital leases that expire July 2016 and July 2018. As of June 30, 2014, the leased copiers are reflected at a cost of \$216,606 and related accumulated depreciation of \$86,734. The leases require monthly payments of principal and interest amounting to \$1,447 and \$2,770, at rates of 8.7% and 4.79% per annum.

Future minimum payments under the capital leases as of June 30, 2014 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 50,604
2016	36,134
2017	33,240
2018	33,240
2019	2,770
Total	155,988
Less: Amount Representing Interest	13,726
Present Value of Minimum Lease Payments	<u>\$ 142,262</u>

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 4 CAPITAL LEASE OBLIGATIONS (CONTINUED)**

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

	Balance July 01, 2013	Increases	Decreases	Balance June 30, 2014
Capital Lease Obligation	\$ 34,194	\$ 146,364	\$ 38,296	\$ 142,262
Total Long-Term Debt	\$ 34,194	\$ 146,364	\$ 38,296	\$ 142,262

**NOTE 5 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, 2014, the rate for the School District of Philadelphia was \$8,419 per year for regular education students plus additional funding for special education students and transportation. 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 these sources was \$5,694,643 for the year ended June 30, 2014.

**NOTE 6 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 social security taxes, retirement expense, facility lease expense 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 collectability of any related receivable at June 30, 2014 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.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 7 PENSION PLAN**

*Plan Description:*

The School contributes to the Public School Employees' Retirement System (the System), a governmental cost-sharing multiple-employer defined benefit pension plan. The plan provides retirement and disability benefits, legislatively mandated *ad hoc* cost-of-living adjustments, and healthcare insurance premium assistance to qualifying annuitants. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa.C.S. 8101-8535) assigns the authority to establish and amend benefit provisions to the System. The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125. This publication is also available on the PSERS website at [www.psers.state.pa.us/publications/cafr/index.htm](http://www.psers.state.pa.us/publications/cafr/index.htm).

*Funding Policy:*

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers and the Commonwealth of Pennsylvania.

Member contributions are as follows:

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.5% (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 7.5% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001, contribute at 7.5% (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 would become Class T-E member or, alternatively, elect to become a class T-F member. The base contribution rate for Class T-E members is 7.50% of compensation. The base contribution rate for Class T-F members is 10.30% of compensation. Class T-E and Class T-F members are subject to a "shared risk" employee contribution rate.

Employer contributions are based upon an actuarial valuation. For fiscal year ended June 30, 2014, the rate of employer's contribution was 16.93% of covered payroll. The 16.93% rate is composed of a pension contribution rate of 16% for pension benefits and 0.93% for health care insurance premium assistance.

Payroll expense for employees covered by the System for the year ended June 30, 2014 was approximately \$2.96 million.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 7 PENSION PLAN (CONTINUED)**

In accordance with Act 29 of 1994, the Commonwealth of Pennsylvania will pay school entities for contributions made to the System based on the formula in Act 29 of 1994, but not less than one-half of the school entities contributions. The School's participation in the plan constitutes less than 1% of total plan contributions. The funded status of the Plan was 63.8% at June 30, 2014, the date of the most recent actuarial calculation as indicated in the plan audit. The School's contributions to the Plan for the years ended June 30, 2014, 2013, 2012 totaled \$366,145, \$286,474, and \$239,072, respectively. Effective July 1, 2014, the PSERS charter subsidy from the Commonwealth of Pennsylvania has been eliminated.

Effective July 1, 2012, the School was part of the Mastery Charter School 403(b) Retirement Plan, a multiple employer 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 up to 5% of their qualified compensation, with the School matching up to 5% of their qualified compensation. Employees who participate in the PSERS retirement plan can also participate in the 403b plan, but these 403b contributions are not matched by the School. The School's contributions to the Plan for the years ended June 30, 2014 and 2013 were \$40,622 and \$20,942, respectively.

**NOTE 8 RISK MANAGEMENT**

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

**NOTE 9 MANAGEMENT AGREEMENT**

The Mastery Charter Schools use a Network Support Team (NST) for their educational, administrative and financial services. The NST is a separate department that is included in the operations of the Mastery Charter High School.

As of July 1, 2013, the School entered into a one year agreement with the Mastery Charter High School to provide educational, administrative and financial services for the School by the NST. As a result of common usage of the NST, the Mastery Charter Schools are considered related parties (see Note 10). The NST management fee is 8.5% of local school funds plus reimbursement for any costs NST incurs in providing the educational, administrative and financial services. Unless specified notice is given, the agreement renews each year during the term of the School's charter. The total fee was \$484,045 for the year ended June 30, 2014.



**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 10 RELATED PARTY TRANSACTIONS**

Mastery Charter High School, Mastery Charter School – Shoemaker Campus, Mastery Charter School – Thomas Campus, Mastery Charter School – Pickett Campus, Mastery Charter School – Harrity Elementary, Mastery Charter School – Smedley Elementary, Hardy Williams Academy Charter School, Mastery Charter School – Clymer Elementary, Mastery Charter School – Gratz Campus, Grover Cleveland Mastery Charter School, and Francis D. Pastorius Mastery Charter School are considered related parties as a result of common members of the boards, the management of the schools and common usage of the NST (see Note 9).

High Tech High Philadelphia Foundation (HTHPF) and Mastery Charter Schools Foundation (MCSF) are considered related parties due to the mission of each organization, which is to support the Mastery Charter Schools. The School received grants from the MCSF totaling \$21,715 in the year ended June 30, 2014.

The following represents amounts due from and to related parties as of June 30, 2014.

	Mann Campus	
	Due From (Receivable)	Due to (Payable)
Due to Other Governmental Entities (All Schools)	\$ -	\$ 3,747
Due to Mastery Charter School Foundation	25	-
	\$ 25	\$ 3,747

**NOTE 11 NEW ACCOUNTING STANDARDS**

In March 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. With Statement No. 65, GASB has reclassified certain assets and liabilities as “deferred outflows” and “deferred inflows” of resources. Further, GASB has changed the balance sheet presentation to “assets, plus deferred outflows of resources equals liabilities, plus deferred inflows of resources, plus net position.” The School adopted Statement No. 65 for the fiscal year ending June 30, 2014. The School has determined that the adoption of Statement No.65 has no effect on the substance of its financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”). The objective of this Statement is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The School has not completed the process of evaluating the impact of GASB 68 on its financial statements.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 11    NEW ACCOUNTING STANDARDS (CONTINUED)**

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement has no effect on the School's financial statements.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Statement No. 70 specifies the information required to be disclosed by governments that extend non-exchange financial guarantees. The School has not completed the process of evaluating the impact of GASB 70 on its financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* ("GASB 71"). The objective of this Statement is to improve accounting and financial reporting by addressing an issue in GASB 68, concerning transition provisions related to certain pension contributions made to defined pension plans prior to implementation of that Statement made by employers and nonemployer contributing entities. The School has not completed the process of evaluating the impact of GASB 71 on its financial statements.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**(UNAUDITED)**  
**YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Educational Agencies	\$ 5,617,201	\$ 5,750,010	\$ 5,694,643	\$ (55,367)
State Sources	251,937	286,937	275,637	(11,300)
Federal Sources	553,623	776,123	766,983	(9,140)
Other Grants and Contributions	21,665	21,665	21,715	50
Other Local Sources	137,600	137,600	166,056	28,456
Interest	5,000	5,000	4,348	(652)
Total Revenues	<u>6,587,026</u>	<u>6,977,335</u>	<u>6,929,382</u>	<u>(47,953)</u>
<b>EXPENDITURES</b>				
Instruction	4,074,030	4,191,302	3,948,332	(242,970)
Support Services	1,963,436	1,990,313	2,038,067	47,754
Non-Instructional Services	399,200	550,863	307,732	(243,131)
Capital Lease Expenditures	-	-	146,364	146,364
Total Expenditures	<u>6,436,666</u>	<u>6,732,478</u>	<u>6,440,495</u>	<u>(291,983)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	150,360	244,857	488,887	244,030
<b>OTHER FINANCING SOURCES AND USES</b>				
Proceeds from Capital Lease Obligation	-	-	146,364	146,364
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 150,360</u>	<u>\$ 244,857</u>	635,251	<u>\$ 390,394</u>
Fund Balance - Beginning of Year			<u>1,661,645</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 2,296,896</u>	

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

Federal Grantor		Federal	Pass-through	Grant Period		Accrued	Total		Accrued
Pass-Through Grantor	Source	CFDA	Grantor's	Beginning/	Grant	(Deferred)	Received	Federal	(Deferred)
Program Title	Code	Number	Number	Ending Date	Amount	Revenue at	for the Year	Expenditures	Revenue at
<u>U.S. Department of Education</u>									
Pass-Through Pennsylvania Department of Education:									
Title I Grant - Improving Basic Programs	I	84.010	013-141096	8/8/13-9/30/14	\$ 340,172	\$ -	\$ 340,172	\$ 340,172	\$ -
ARRA - Title I - School Improvement Grant 1003g	I	84.388	139-120396	7/18/12-9/30/13	500,908	(52,768)	33,394	86,162	-
Title II Grant - Improving Teacher Quality	I	84.367	020-131096	7/1/12-9/30/13	31,618	13	13	-	-
Title II Grant - Improving Teacher Quality	I	84.367	020-141096	8/8/13-9/30/14	29,832	-	29,801	29,832	31
Pass-Through School District of Philadelphia:									
Individuals with Disabilities Education Act Part B	I	84.027	N/A	7/1/12 - 6/30/13	82,561	41,280	41,281	-	-
Individuals with Disabilities Education Act Part B	I	84.027	N/A	7/1/13 - 6/30/14	83,648	-	41,824	83,648	41,824
Total U.S. Department of Education						(11,475)	486,485	539,814	41,855
<u>U.S. Department of Agriculture</u>									
Pass-Through Pennsylvania Department of Education:									
Food and Nutrition Services - School Breakfast Program	I	10.553	N/A	7/1/13 - 6/30/14	52,691	-	43,401	52,690	9,289
Food and Nutrition Services - School Lunch Program	I	10.555	N/A	7/1/13 - 6/30/14	188,712	-	158,904	170,713	11,809
Total U.S. Department of Agriculture						-	202,305	223,403	21,098
<u>U.S. Department of Health and Human Services</u>									
Pass-Through Pennsylvania Department of Public Welfare									
Medical Assistance	I	93.778	044 007672	7/1/12 - 6/30/13	13,640	5,212	4,814	-	398
Medical Assistance	I	93.778	044 007672	7/1/13 - 6/30/14	3,766	-	-	3,766	3,766
Total U.S. Department of Health and Human Services						5,212	4,814	3,766	4,164
Total Expenditures of Federal Awards						\$ (6,263)	\$ 693,604	\$ 766,983	\$ 67,117
D - Direct Funding									
I - Indirect Funding									

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2014**

**NOTE 1      GENERAL INFORMATION**

The accompanying Schedule of Expenditures of Federal Awards presents the activities of the federal financial assistance programs of Mastery Charter School – Mann Elementary (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 2      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 3      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, nor does it, present either the balance sheet, revenue, expenditures, or changes in fund balances of governmental funds. The financial activity for the aforementioned awards is reported in the School's statement of activities and statement of revenue, expenditures, and changes in fund balance – 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  
Mastery Charter School – Mann Elementary  
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 Mastery Charter School – Mann Elementary, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Mastery Charter School – Mann Elementary's basic financial statements, and have issued our report thereon dated November 11, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mastery Charter School – Mann Elementary'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 Mastery Charter School – Mann Elementary's internal control. Accordingly, we do not express an opinion on the effectiveness of Mastery Charter School – Mann Elementary's internal control.

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

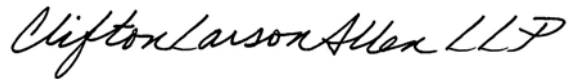
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mastery Charter School – Mann Elementary’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*.

**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  
November 11, 2014

**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  
Mastery Charter School – Mann Elementary  
Philadelphia, Pennsylvania

**Report on Compliance for Each Major Federal Program**

We have audited Mastery Charter School – Mann Elementary'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 Mastery Charter School – Mann Elementary's major federal programs for the year ended June 30, 2014. Mastery Charter School – Mann Elementary'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 Mastery Charter School – Mann Elementary'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 Mastery Charter School – Mann Elementary'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 Mastery Charter School – Mann Elementary's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Mastery Charter School – Mann Elementary 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, 2014.



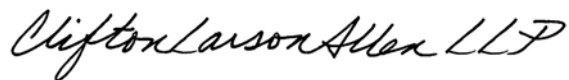
### **Report on Internal Control Over Compliance**

Management of Mastery Charter School – Mann Elementary 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 Mastery Charter School – Mann Elementary’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 Mastery Charter School – Mann Elementary’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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 11, 2014

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014**

**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       X  no
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes       X  none reported
3. Noncompliance material to financial statements noted? \_\_\_\_\_ yes       X  no

**Federal Awards**

1. Internal control over major federal programs:
- Material weakness(es) identified? \_\_\_\_\_ yes       X  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes       X  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? \_\_\_\_\_ yes       X  no

**Identification of Major Federal Programs**

**CFDA Number(s)**

84.010

**Name of Federal Program or Cluster**

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

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?

X  yes      \_\_\_\_\_ no

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

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**Section II – Financial Statement Findings**

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Our audit did not disclose any matters required to be reported in accordance with Government Auditing Standards.

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**Section III – Findings and Questioned Costs – Major Federal Programs**

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Our audit did not disclose any matters required to be reported in accordance with Section 510(a) of OMB Circular A-133.

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**Section IV – Prior Audit Findings**

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There were no prior year findings required to be reported under the Federal Single Audit Act.