

MASTERY CHARTER SCHOOL – MANN ELEMENTARY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

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

**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, 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.



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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, 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 Mastery Charter School – Mann Elementary 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, the Mastery Charter School – Mann Elementary reported a restatement for the change in accounting principle (see Note 8). Our auditors’ opinion was not modified with respect to the restatement.

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 the schedules of proportionate share of PSERS net pension liability and contributions on pages 4 through 7 and pages 30 and 31 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 2014 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 November 11, 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 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.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 16, 2015

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2015**

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, 2015. We encourage readers to consider the information presented here in conjunction with the School’s financial statements.

Financial Highlights

- Total revenues decreased by \$286,702 to \$6,642,680 due to decreases in school subsidies, state sources and federal sources.
- At the close of the current fiscal year, the School reports ending net position of <\$4,932,154>. This net position balance represents a decrease in net position of \$7,633,500 for the year ended June 30, 2015 as a result of the current year increase in net position of \$104,906 and 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.
- At the close of the current fiscal year, the School reports an ending general fund balance of \$2,444,506. The general fund balance increased by \$147,610 from the previous year end general fund balance as the result of the net change in fund balance for the year ended June 30, 2015.
- The School’s cash balance at June 30, 2015 was \$3,135,418 representing an increase of \$229,071 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, 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, deferred outflows, liabilities and deferred inflows, 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.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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 only one fund type, the governmental 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

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 inflows exceeded assets and deferred outflows by \$4,932,154 as of June 30, 2015.

	2015	2014
Total Assets	\$ 3,777,267	\$ 3,616,665
Total Deferred Outflows	363,449	-
Total Liabilities	7,605,154	915,319
Total Deferred Inflows	1,467,716	-
Total Net Position	\$ (4,932,154)	\$ 2,701,346

* The 2014 Net Position balance has not been restated

The School’s net position decreased by \$7,633,500 primarily as a result of the required implementation of GASB Statement No. 68.

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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 and awards from federal and state sources.

	<u>2015</u>	<u>2014</u>
REVENUES		
Local Educational Agencies	\$ 5,580,524	\$ 5,694,643
State Sources	103,746	275,637
Federal Sources	756,383	766,983
Other Grants and Contributions	28,405	21,715
Other Local Sources	<u>173,622</u>	<u>170,404</u>
Total Revenues	6,642,680	6,929,382
EXPENDITURES		
Instruction	3,388,440	3,140,099
Special Education	1,025,511	804,128
Student Support Services	390,953	466,851
Instruction Support Services	4,622	7,836
Administration Support	864,152	854,345
Pupil Health	54,818	50,255
Business Services	45,227	53,746
Operations and Maintenance	433,328	446,470
Student Transportation Services	860	306
Other Support Services	51,956	64,766
Student Activities	48,186	26,168
Food Services	244,492	278,064
Interest Expense	6,310	9,538
Amortization Expense	(239,690)	-
Depreciation Expense	<u>218,608</u>	<u>233,045</u>
Total Expenditures	<u>6,537,774</u>	<u>6,435,617</u>
Change in Net Position	104,906	493,765
Net Position, Beginning	2,701,346	2,207,581
Prior Period Adjustment - Implementation of GASB Standard - See Note 8	<u>(7,738,406)</u>	<u>-</u>
Net Position - Beginning, as Restated	<u>(5,037,060)</u>	<u>-</u>
Net Position, Ending	<u>\$ (4,932,154)</u>	<u>\$ 2,701,346</u>

* The 2014 Net Position balance has not been restated

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2015**

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 \$2,444,506. For the year ended June 30, 2015, the School’s revenues (\$6,642,680) exceeded expenditures (\$6,495,070) by \$147,610.

General Fund Budgetary Highlights

Actual revenues exceeded Budgeted revenues by \$108,026 due to higher than budgeted local educational agencies, state and other local sources. Actual expenditures were less than budgeted expenditures by \$415,598 due to lower than budgeted instruction and non-instructional expenditures.

Capital Asset

As of June 30, 2015, the School’s investment in capital assets for its governmental activities totaled \$337,607 (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 \$27,250 for equipment
- Capital expenditures of \$4,907 for furniture fixtures
- Capital expenditures of \$75,314 for leasehold improvements

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

LONG-TERM DEBT

As of June 30, 2015, the School has long-term debt of \$97,968 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 0.5% from \$7,990 to \$7,950 for regular education students and increase 3.5% from \$23,281 to \$24,107 for special education students.

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, 2015
(WITH COMPARATIVE TOTALS AT JUNE 30, 2014)

	Governmental Activities	
	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,135,418	\$ 2,906,347
State Subsidies Receivable	-	62,085
Federal Subsidies Receivable	120,193	67,117
Other Receivables	77,540	15,279
Prepaid Expenses	8,541	19,100
Due from MCS Foundation	-	25
Total Current Assets	3,341,692	3,069,953
CAPITAL ASSETS, NET	435,575	546,712
Total Assets	3,777,267	3,616,665
DEFERRED OUTFLOWS		
Deferred Outflows from Pensions - See Note 8	363,449	-
LIABILITIES		
CURRENT LIABILITIES		
Capital Lease Obligation - Current Portion	32,186	44,294
Accounts Payable	147,651	130,500
Accrued Expenses	693,176	638,810
Unearned Revenue	53,245	-
Due to Other Governmental Entities	3,114	3,747
Total Current Liabilities	929,372	817,351
LONG-TERM LIABILITIES		
Capital Lease Obligation - Net of Current Portion	65,782	97,968
Net Pension Liability	6,610,000	-
Total Long-Term Liabilities	6,675,782	97,968
Total Liabilities	7,605,154	915,319
DEFERRED INFLOWS		
Deferred Inflows from Pensions - See Note 8	1,467,716	-
NET POSITION		
Net Investment in Capital Assets	337,607	404,450
Unrestricted (Deficit)	(5,269,761)	2,296,896
Total Net Position	\$ (4,932,154)	\$ 2,701,346

See accompanying Notes to Financial Statements.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

Functions	Expenses	Program Revenues Operating Grants and Contributions	2015	2014
			Net(Expense) Revenue and Changes in Net Position Total Governmental Activities	Net(Expense) Revenue and Changes in Net Position Total Governmental Activities
Governmental Activities:				
Instruction	\$ 3,388,440	\$ 404,011	\$ (2,984,429)	\$ (2,596,519)
Special Education	1,025,511	82,629	(942,882)	(804,128)
Student Support Services	390,953	-	(390,953)	(466,851)
Instruction Support Services	4,622	-	(4,622)	(7,836)
Administration Support	864,152	-	(864,152)	(854,345)
Pupil Health	54,818	-	(54,818)	(50,255)
Business Services	45,227	-	(45,227)	(53,746)
Operations and Maintenance	433,328	-	(433,328)	(446,470)
Student Transportation Services	860	-	(860)	(306)
Other Support Services	51,956	-	(51,956)	(64,766)
Student Activities	48,186	-	(48,186)	(26,168)
Food Services	244,492	302,466	57,974	(39,316)
Interest Expense	6,310	-	(6,310)	(9,538)
Amortization Expense	(239,690)	-	239,690	-
Depreciation Expense	218,608	-	(218,608)	(233,045)
Total	\$ 6,537,774	\$ 789,106	(5,748,668)	(5,653,289)
General Revenues:				
Local Educational Agencies			5,580,524	5,694,643
State Grants and Reimbursements			90,103	263,118
Grants and Contributions			28,405	21,715
Other Local Revenue			147,132	163,230
Interest			7,410	4,348
Total General Revenues			5,853,574	6,147,054
Change in Net Position			104,906	493,765
Net Position - Beginning of Year			2,701,346	2,207,581
Prior Period Adjustment - Implementation of GASB Standard - See Note 8			(7,738,406)	-
Net Position - Beginning, as Restated			(5,037,060)	-
Net Position - End of Year			\$ (4,932,154)	\$ 2,701,346

See accompanying Notes to Financial Statements.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2015
(WITH COMPARATIVE TOTALS AT JUNE 30, 2014)

	2015	2014
	General Fund	General Fund
ASSETS		
Cash and Cash Equivalents	\$ 3,135,418	\$ 2,906,347
State Subsidies Receivable	-	62,085
Federal Subsidies Receivable	120,193	67,117
Other Receivables	77,540	15,279
Prepaid Expenses	8,541	19,100
Due from MCS Foundation	-	25
	<u>\$ 3,341,692</u>	<u>\$ 3,069,953</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	\$ 147,651	\$ 130,500
Accrued Expenses	693,176	638,810
Unearned Revenue	53,245	-
Due to Other Governmental Entities	3,114	3,747
Total Liabilities	<u>897,186</u>	<u>773,057</u>
FUND BALANCE		
Nonspendable to:		
Prepaid Expenses	8,541	19,100
Committed to:		
Designated for Future Budget Deficits	2,000,000	1,800,000
Designated for Facilities Improvements	250,000	250,000
Designated for Capital Projects	30,000	90,000
Designated for ASL Program	100,000	100,000
Unassigned	55,965	37,796
Total Fund Balance	<u>2,444,506</u>	<u>2,296,896</u>
Total Liabilities and Fund Balance	<u>\$ 3,341,692</u>	<u>\$ 3,069,953</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, 2015**

Total Fund Balance for Governmental Funds		\$ 2,444,506
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		435,575
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:		
		(97,968)
Net pension liability is not due in payable in the current period and, therefore, is not reported in the funds:		
Pension Liability		(6,610,000)
Deferred outflows is recorded as expenditure in the fund statements, but recorded as a deferred outflow and amortized in the statement of financial position.		
Deferred Outflow		363,449
Deferred inflows is recorded as recorded net difference between between projected and actual investment earnings and the changes in the proportions		
Deferred Inflow		<u>(1,467,716)</u>
Total Net Position of Governmental Activities		<u><u>\$ (4,932,154)</u></u>

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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)

	2015	2014
	General Fund	General Fund
REVENUES		
Local Educational Agencies	\$ 5,580,524	\$ 5,694,643
State Sources	103,746	275,637
Federal Sources	756,383	766,983
Grants and Contributions	28,405	21,715
Other Local Revenue	166,212	166,056
Interest	7,410	4,348
Total Revenues	6,642,680	6,929,382
EXPENDITURES		
Instruction	4,264,436	3,948,332
Support Services	1,934,456	2,038,067
Non-Instructional Services	296,178	307,732
Capital Lease Expenditures	-	146,364
Total Expenditures	6,495,070	6,440,495
EXCESS OF REVENUES OVER EXPENDITURES	147,610	488,887
OTHER FINANCING SOURCES AND USES		
Proceeds from Capital Lease Obligation	-	146,364
NET CHANGE IN FUND BALANCE	147,610	635,251
Fund Balance - Beginning of Year	2,296,896	1,661,645
FUND BALANCE - END OF YEAR	\$ 2,444,506	\$ 2,296,896

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, 2015**

Net Change in Fund Balance - Total Governmental Funds \$ 147,610

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	(218,608)
Capital Outlays	107,471

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	44,294
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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	(215,551)
Amortization Expense	<u>239,690</u>

Change in Net Position of Governmental Activities \$ 104,906

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 an initial five-year term beginning July 1, 2010, in accordance with Pennsylvania Act 22 of 1997. The charter was renewed for an additional five year-term term of July 1, 2015 through June 30, 2020. During the year ended June 30, 2015, the School served approximately 547 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, 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 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.

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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 (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, 2015

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 2014. An amended budget was approved by the Board of Trustees in January 2015. 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, 2015

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 \$150,000 annually. The stop-loss insurance provides \$1,000,000 of coverage in addition to our aggregate annual claims limit of \$8,689,466 for the fiscal year 2015. The annual claims limit is based on the average enrollment of 956 lives times a monthly claims factor of \$757. 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, 2015, 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, 2015 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, 2015 is \$774,593, and is included on Mastery Charter High School’s financial statements. Total expense under the program was approximately \$7,949,333, which includes Mastery Charter School – Mann Elementary’s portion of \$363,449 for the year ended June 30, 2015.

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, 2015, 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, 2015

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows 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 PSERS' fiduciary net position have been determined on the same basis as they 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.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

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.

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.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

Contributions (Continued)

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 \$363,449 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. No provision for income taxes has been established, as the School has no unrelated business activity.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, \$1,374,003 of the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 9,531
Collateralized	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	<u>1,374,003</u>
Total Custodial Credit Risk	<u><u>\$ 1,383,534</u></u>

Reconciliation to the Financial Statements:

Custodial Credit Risk from Above	\$ 1,383,534
Plus: Insured Amount	1,755,282
Less: Outstanding Checks	(6,108)
Plus: Petty Cash	500
Plus: Deposits in Transit	<u>2,210</u>
Total Cash Per Financial Statements	<u><u>\$ 3,135,418</u></u>

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

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year is summarized below:

Description	Balance	Deletions	Additions	Balance
	July 01, 2014			June 30, 2015
Leasehold Improvements	\$ 539,970	\$ -	\$ 75,314	\$ 615,284
Furniture and Fixtures	417,999	-	4,907	422,906
Equipment	361,472	-	27,250	388,722
Software	72,215	-	-	72,215
Capital Lease	216,606	-	-	216,606
Total	1,608,262	-	107,471	1,715,733
Less: Accumulated Depreciation	1,061,550	-	218,608	1,280,158
Capital Assets, Net	<u>\$ 546,712</u>	<u>\$ -</u>	<u>\$ (111,137)</u>	<u>\$ 435,575</u>

NOTE 4 CAPITAL LEASE OBLIGATIONS

The School leases copiers under capital leases that expire July 2016 and July 2018. As of June 30, 2015, the leased copiers are reflected at a cost of \$216,606 and related accumulated depreciation of \$130,055. 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, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 36,134
2017	33,240
2018	33,240
2019	2,770
Total	105,384
Less: Amount Representing Interest	7,416
Present Value of Minimum Lease Payments	<u>\$ 97,968</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2015:

	<u>July 01, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Capital Lease Obligation	\$ 142,262	\$ -	\$ 44,294	\$ 97,968
Total Long-Term Debt	<u>\$ 142,262</u>	<u>\$ -</u>	<u>\$ 44,294</u>	<u>\$ 97,968</u>

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, the rate for the School District of Philadelphia was \$7,990 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 \$5,580,524 for the year ended June 30, 2015.

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, 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 7 RETIREMENT PLAN

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, 2015 and 2014 were \$64,433 and \$40,622, respectively.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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

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 .0167 percent, which was a decrease of .0030 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 the 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 assets have been restated as follows:

	Unrestricted	Net Investment in Capital Assets	Restricted	Total
Net Position, July 1, 2014, as Previously Reported	\$ 2,296,896	\$ 404,450	\$ -	\$ 2,701,346
Cumulative Effect of Application of GASB 68, Net Pension Liability	(8,064,000)	-	-	(8,064,000)
Cumulative Effect of Application of GASB 71, Deferred Outflow of Resources for Contributions Made to the Plan During the Year Ending June 30, 2014	<u>325,594</u>	<u>-</u>	<u>-</u>	<u>325,594</u>
Net Position, July 1, 2014, as Restated	<u>\$ (5,441,510)</u>	<u>\$ 404,450</u>	<u>\$ -</u>	<u>\$ (5,037,060)</u>

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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 \$579,000. At June 30, 2015, the employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ -
Changes in Assumptions	-	-
Net Difference Between Projected and Actual Investment Earnings	-	(473,000)
Changes in proportions	-	(988,748)
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	(5,968)
Contributions Subsequent to the Measurement Date	363,449	-
	\$ 363,449	\$ (1,467,716)

\$363,449 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:

Years Ended June 30	Amount
2016	\$ (357,941)
2017	(357,941)
2018	(357,941)
2019	(357,941)
2020	(35,952)
	\$ (1,467,716)

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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

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%
- 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, 2014 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.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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)

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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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.

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.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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)

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	\$ 8,245,000	\$ 6,610,000	\$ 5,214,000

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 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 10 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 11). 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 \$474,345 for the year ended June 30, 2015.

As of October 2014, the School entered into a one year technology and equipment agreement with Mastery Charter High School. The fee is \$49,862 for the fiscal year.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 11 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 10).

The following represents amounts due from and to related parties as of June 30, 2015.

	Mann Campus	
	Due From (Receivable)	Due to (Payable)
Due to Other Governmental Entities (All Schools)	\$ -	\$ 3,114
	\$ -	\$ 3,114

NOTE 12 NEW ACCOUNTING STANDARDS

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of In February 2015, GASB issued Statement No. 72, Fair Value Measurement and Application (“GASB 72”). The objective of this Statement is 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 for enhancing disclosures around fair value measurements. The provisions of this Statement are effective 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.

MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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 Agencies	\$ 5,698,512	\$ 5,573,121	\$ 5,580,524	\$ 7,403
State Sources	77,112	77,112	103,746	26,634
Federal Sources	615,481	778,569	756,383	(22,186)
Other Grants and Contributions	-	12,372	28,405	16,033
Other Local Sources	50,000	93,480	166,212	72,732
Interest	-	-	7,410	7,410
Total Revenues	6,441,105	6,534,654	6,642,680	108,026
EXPENDITURES				
Instruction	4,439,361	4,474,952	4,264,436	(210,516)
Support Services	1,927,086	1,900,481	1,934,456	33,975
Non-Instructional Services	452,863	535,235	296,178	(239,057)
Total Expenditures	6,819,310	6,910,668	6,495,070	(415,598)
NET CHANGE IN FUND BALANCE	\$ (378,205)	\$ (376,014)	147,610	\$ 523,624
Fund Balance - Beginning of Year			2,296,896	
FUND BALANCE - END OF YEAR			\$ 2,444,506	

MASTERY CHARTER SCHOOL – MANN ELEMENTARY

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

Fiscal Year	PSERS Net Pension Liability		School's Covered Employee Payroll	School's Proportiona Share of NPL as a % of Employee Payroll	PSERS Fiduciary Net Position as a % of Total Pension Liability
	School's Proportion	School's Proportion Share			
2014/15	0.01670%	\$ 6,610	\$ 2,136	309%	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	\$ 363	\$ 363	\$ -	\$ 2,136	17.0%

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

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
						July 1, 2014			June 30, 2015
<u>U.S. Department of Education</u>									
Pass-Through Pennsylvania Department of Education:									
Title I Grant - Improving Basic Programs	I	84.010	013-151096	8/21/14 - 9/30/15	\$ 361,560	\$ -	\$ 365,998	\$ 361,560	\$ (4,438)
Title II Grant - Improving Teacher Quality	I	84.367	020-141096	8/8/13 - 9/30/14	29,832	31	31	-	-
Title II Grant - Improving Teacher Quality	I	84.367	020-151096	8/21/14 - 9/30/15	29,713	-	29,741	29,713	(28)
Pass-Through School District of Philadelphia:									
Individuals with Disabilities Education Act Part B	I	84.027	N/A	7/1/13 - 6/30/14	83,648	41,824	41,824	-	-
Individuals with Disabilities Education Act Part B	I	84.027	N/A	7/1/14 - 6/30/15	82,629	-	-	82,629	82,629
Total U.S. Department of Education						<u>41,855</u>	<u>437,594</u>	<u>473,902</u>	<u>78,163</u>
<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	9,289	9,289	-	-
Food and Nutrition Services - School Lunch Program	I	10.555	N/A	7/1/13 - 6/30/14	188,712	29,809	29,809	-	-
Food and Nutrition Services - School Breakfast Program	I	10.553	N/A	7/1/14 - 6/30/15	72,735	-	64,061	72,735	8,674
Food and Nutrition Services - School Lunch Program	I	10.555	N/A	7/1/14 - 6/30/15	197,007	-	170,392	197,007	26,615
Total U.S. Department of Agriculture						<u>39,098</u>	<u>273,551</u>	<u>269,742</u>	<u>35,289</u>
<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	398	398	-	-
Medical Assistance	I	93.778	044 007672	7/1/13 - 6/30/14	3,766	3,766	3,766	-	-
Medical Assistance	I	93.778	044 007672	7/1/14 - 6/30/15	\$ 12,739	-	12,236	12,739	503
Total U.S. Department of Health and Human Services						<u>4,164</u>	<u>16,400</u>	<u>12,739</u>	<u>503</u>
Total Expenditures of Federal Awards						<u>\$ 85,117</u>	<u>\$ 727,545</u>	<u>\$ 756,383</u>	<u>\$ 113,955</u>

D - Direct 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, 2015

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, 2015, 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 16, 2015.

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 16, 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
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, 2015. 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, 2015.

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 considered 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 16, 2015

**MASTERY CHARTER SCHOOL – MANN ELEMENTARY
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 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, 2015

Section II – Financial Statement Findings

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

Section III – Findings and Questioned Costs – Major Federal Programs

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

Section IV – Prior Audit Findings

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