

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**PERIOD FROM JUNE 17, 2013 (DATE OF INCEPTION)
TO JUNE 30, 2014**

**FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Francis D. Pastorius Mastery Charter School
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Francis D. Pastorius Mastery Charter School, as of June 30, 2014 and for the period June 17, 2013 (date of inception) to 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 Francis D. Pastorius Mastery Charter School as of June 30, 2014, and the respective changes in financial position for the period June 17, 2013 (date of inception) to June 30, 2014 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 3 through 5 and page 22 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.

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 Francis D. Pastorius Mastery Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Francis D. Pastorius Mastery Charter School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 11, 2014

**FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

The Board of Trustees of Francis D. Pastorius Mastery Charter School (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the period June 17, 2013 (date of inception) to June 30, 2014. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- Total revenues were \$7,130,711 which consisted mostly of School District student subsidies and other grants and contributions.
- At the close of the period ended June 30, 2014, the School reports an ending fund balance of \$357,194.
- The School's cash balance at June 30, 2014 was \$1,585,890.

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*.

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.

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.

**FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2014**

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 \$870,246 as of June 30, 2014.

Total Assets	\$ 2,275,379
Total Liabilities	<u>1,405,133</u>
Total Net Position	<u><u>\$ 870,246</u></u>

The School's revenues are predominately from the School District of Philadelphia, based on the student enrollment and awards from other grants and contributions.

REVENUES

Local Educational Agencies	\$ 5,349,289
State Sources	138,355
Federal Sources	384,348
Other Grants and Contributions	900,576
Other Local Sources	<u>358,143</u>
Total Revenues	7,130,711

EXPENDITURES

Instruction	3,128,198
Special Education	902,812
Student Support Services	535,779
Administration Support	1,031,435
Pupil Health	62,168
Business Support	50,487
Transportation	202
Operations and Maintenance	393,037
Other Support Services	65,955
Student Activities	33,811
Interest Expense	7,164
Depreciation Expense	<u>49,417</u>
Total Expenditures	<u>6,260,465</u>
Change in Net Position	870,246
Net Position, Beginning	<u>-</u>
Net Position, Ending	<u><u>\$ 870,246</u></u>

**FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
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 \$357,194. For the period ended June 30, 2014, the School's revenues and other financing sources (\$7,277,075) exceeded expenditures (\$6,919,881) by \$357,194.

General Fund Budgetary Highlights

Actual revenues were less than budgeted revenue by \$192,560. Actual expenditures were less than budgeted expenditures by \$270,974 due to less than expected non-instructional services expenditures.

Capital Asset

As of June 30, 2014, the School's investment in capital assets for its governmental activities totaled \$513,052 (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 period included the following:

- Capital expenditures of \$3,800 for equipment
- Capital expenditures of \$535,363 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 \$123,058 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.

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.

**FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash	\$ 1,585,890
State Subsidies Receivable	30,831
Other Receivables	5,572
Prepaid Expenses	16,759
Due to Mastery Charter Schools Foundation	217
Total Current Assets	1,639,269
CAPITAL ASSETS, NET	636,110
Total Assets	2,275,379
LIABILITIES	
CURRENT LIABILITIES	
Capital Lease Obligation - Current Maturities	27,954
Accounts Payable	274,810
Accrued Expenses	514,709
Due to Other Governmental Entities	392,915
Unearned Revenue	99,641
Total Current Liabilities	1,310,029
CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION	95,104
Total Liabilities	1,405,133
NET POSITION	
Net Investment in Capital Assets	513,052
Unrestricted	357,194
Total Net Position	\$ 870,246

See accompanying Notes to Financial Statements

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
PERIOD FROM JUNE 17, 2013 (DATE OF INCEPTION) TO JUNE 30, 2014

Functions	Expenses	Program Revenues Operating Grants and Contributions	Revenue and Changes in Net Position Total Governmental Activities
Governmental Activities:			
Instruction	\$ 3,128,198	\$ 384,348	\$ (2,743,850)
Special Education	902,812	-	(902,812)
Student Support Services	535,779	-	(535,779)
Administration Support	1,031,435	-	(1,031,435)
Pupil Health	62,168	-	(62,168)
Business Support	50,487	-	(50,487)
Operations and Maintenance	393,037	-	(393,037)
Other Support Services	65,955	-	(65,955)
Student Activities	34,013	-	(34,013)
Interest Expense	7,164	-	(7,164)
Depreciation Expense	49,417	-	(49,417)
Total	<u>\$ 6,260,465</u>	<u>\$ 384,348</u>	(5,876,117)
General Revenues:			
Local Educational Agencies			5,349,289
State Grants and Reimbursements			138,355
Other Grants and Contributions			900,576
Other Local Sources			<u>358,143</u>
Total General Revenues			<u>6,746,363</u>
Change in Net Position			870,246
Net Position - Beginning of Period			<u>-</u>
Net Position - End of Period			<u>\$ 870,246</u>

See accompanying Notes to Financial Statements

**FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General Fund</u>
ASSETS	
Cash	\$ 1,585,890
State Subsidies Receivable	30,831
Other Receivables	5,572
Prepaid Expenses	16,759
Due to Mastery Charter Schools Foundation	<u>217</u>
 Total Assets	 <u><u>\$ 1,639,269</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 274,810
Accrued Expenses	514,709
Due to Governments	392,915
Unearned Revenue	<u>99,641</u>
Total Liabilities	1,282,075
FUND BALANCE	
Nonspendable:	
Prepaid Expenses	16,759
Committed to:	
Designated for Future Budget Deficits	300,000
Unassigned	<u>40,435</u>
Total Fund Balance	<u><u>357,194</u></u>
 Total Liabilities and Fund Balance	 <u><u>\$ 1,639,269</u></u>

**FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balance for Governmental Funds \$ 357,194

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 636,110

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 assets.

Balances at year end are: (123,058)

Total Net Position of Governmental Activities \$ 870,246

**FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
PERIOD FROM JUNE 17, 2013 (DATE OF INCEPTION) TO JUNE 30, 2014**

	<u>General Fund</u>
REVENUES	
Local Educational Agencies	\$ 5,349,289
State Sources	138,355
Federal Sources	384,348
Other Grants and Contributions	900,576
Other Local Sources	358,143
Total Revenues	<u>7,130,711</u>
EXPENDITURES	
Instruction	4,031,010
Support Services	2,708,696
Non-Instructional Services	33,811
Capital Lease Expenditures	146,364
Total Expenditures	<u>6,919,881</u>
EXCESS OF REVENUES OVER EXPENDITURES	210,830
OTHER FINANCING SOURCES AND USES	
Proceeds from Capital Lease Obligation	<u>146,364</u>
NET CHANGE IN FUND BALANCE	357,194
Fund Balance - Beginning of Period	<u>-</u>
FUND BALANCE - END OF PERIOD	<u><u>\$ 357,194</u></u>

**FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
PERIOD FROM JUNE 17, 2013 (DATE OF INCEPTION) TO JUNE 30, 2014**

Net Change in Fund Balance - Total Governmental Funds \$ 357,194

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 capital outlays exceeded depreciation in the current period.

Capital Outlays	685,527
Depreciation Expense	(49,417)

Governmental Funds report capital lease obligations proceeds as financing sources, while repayment is reported as expenditures. In the statement of net asset, 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>(123,058)</u>
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Change in Net Position of Governmental Activities \$ 870,246

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The Francis D. Pastorius Mastery Charter School (the School) was formed as a Pennsylvania nonprofit corporation to operate in accordance with Pennsylvania Act 22 of 1997. The initial charter was granted by the Commonwealth on June 17, 2013. The current charter is for a five-year term from July 1, 2013 to June 30, 2018. During the period ended June 30, 2014, the School served approximately 520 students in grades kindergarten through eight. Although the School was established in June 2013, the School operations started in July 2013. As a result, the management discussion and analysis along with the financial statements were completed for the period of June 17, 2013 (date of inception) to June 30, 2014.

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.

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.

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.

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
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)

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.”

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.

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Method of Accounting (Continued)

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.

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.

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Significant Accounting Estimates—Self-Insured Claims (Continued)

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 the Mastery Charter High School's financial statements. Total expense under the program was approximately \$6,121,913, which includes Francis D. Pastorius Mastery Charter School's portion of \$232,750 for the period ended June 30, 2014.

Cash

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

Accounts Receivable

Accounts receivable primarily consist of amounts due from the Pennsylvania Department of Education for federal, state and local 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.

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 period. 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 has applied to the Internal Revenue Service (pending approval) to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. Accordingly, no provision for income taxes has been established, as the School has no unrelated business activity.

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 CASH

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, \$1,341,640 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		<u>1,341,640</u>
Total Custodial Credit Risk	<u>\$</u>	<u>1,341,640</u>

Reconciliation to the Financial Statements:

Custodial Credit Risk from Above	\$	1,341,640
Plus: Insured Amount		250,000
Less: Outstanding Checks		(6,250)
Plus: Petty Cash		500
Total Cash Per Financial Statements	<u>\$</u>	<u>1,585,890</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	7 Years
Equipment	5 Years
Furniture and Fixtures	7 Years
Software	3 Years
Capital Lease	5 Years

Capital asset activity for the period is summarized below:

Description	Balance June 17, 2013	Deletions	Additions	Balance June 30, 2014
Equipment	\$ -	\$ -	\$ 3,800	\$ 3,800
Leasehold Improvements	-	-	535,363	535,363
Capital Leases	-	-	146,364	146,364
Total	-	-	685,527	685,527
Less: Accumulated Depreciation	-	-	49,417	49,417
Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 636,110</u>	<u>\$ 636,110</u>

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4 CAPITAL LEASE OBLIGATIONS

The School leases several copiers under capital leases that expire July 2018. As of June 30, 2014, the leased copiers are reflected at a cost of \$146,364 and related accumulated depreciation of \$30,202. The lease requires monthly payments of principal and interest amounting to \$2,770, at an interest rate of 4.79% per annum.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 33,240
2016	33,240
2017	33,240
2018	33,240
2019	<u>2,770</u>
Total	135,730
Less: Amount Representing Interest	<u>12,672</u>
Present Value of Minimum Lease Payments	<u><u>\$ 123,058</u></u>

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

	<u>Balance</u> <u>July 01, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital Lease Obligation	<u>\$ -</u>	<u>\$ 146,364</u>	<u>\$ 23,306</u>	<u>\$ 123,058</u>
Total Long-Term Debt	<u><u>\$ -</u></u>	<u><u>\$ 146,364</u></u>	<u><u>\$ 23,306</u></u>	<u><u>\$ 123,058</u></u>

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 period 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 \$5,349,289 for the period ended June 30, 2014.

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
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.

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.

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.

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 PENSION PLAN (CONTINUED)

- 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 period ended June 30, 2014 was approximately \$2.6 million.

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 contribution to the Plan for the period ended June 30, 2014 totaled \$207,335. Effective July 1, 2014, the PSERS charter subsidy from the Commonwealth of Pennsylvania has been eliminated.

The School is 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 contribution to the Plan for the period ended June 30, 2014 was \$83,691.

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.

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 \$454,690 for the period ending 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 – Mann Elementary, Mastery Charter School – Smedley Elementary, Hardy Williams Charter School, Mastery Charter School – Gratz Elementary, Mastery Charter School – Clymer Elementary, and Grover Cleveland Mastery Charter School are considered related parties as a result of common members of the boards and the management of the schools.

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 \$900,576 in the year ended June 30, 2014.

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

	Due From (Receivable)	Due to (Payable)
Due to Other Governmental Entities (All Schools)	\$ -	\$ 392,915
Due to Mastery Charter Schools Foundation	217	-
	<u>\$ 217</u>	<u>\$ 392,915</u>

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

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.

FRANCIS D. PASTORIUS MASTERY CHARTER SCHOOL
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
PERIOD FROM JUNE 17, 2013 (DATE OF INCEPTION) TO JUNE 30, 2014
(UNAUDITED)

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources	\$ 5,551,837	\$ 5,420,431	\$ 5,349,289	\$ (71,142)
State Sources	76,300	126,300	138,355	12,055
Federal Sources	332,540	332,540	384,348	51,808
Other Grants and Contributions	1,400,000	1,400,000	900,576	(499,424)
Other Local Sources	44,000	44,000	358,143	314,143
Total Revenues	<u>7,404,677</u>	<u>7,323,271</u>	<u>7,130,711</u>	<u>(192,560)</u>
EXPENDITURES				
Instruction	4,466,509	4,201,166	4,031,010	(170,156)
Support Services	2,864,252	2,959,989	2,708,696	(251,293)
Non-Instructional Services	29,700	29,700	33,811	4,111
Capital Lease Expenditures	-	-	146,364	146,364
Total Expenditures	<u>7,360,461</u>	<u>7,190,855</u>	<u>6,919,881</u>	<u>(270,974)</u>
EXCESS OF REVENUES OVER EXPENDITURES	44,216	132,416	210,830	78,414
OTHER FINANCING SOURCES AND USES				
Proceeds from Capital Lease Obligation	-	-	146,364	146,364
NET CHANGE IN FUND BALANCE	<u>\$ 44,216</u>	<u>\$ 132,416</u>	357,194	<u>\$ 224,778</u>
Fund Balance - Beginning of Period			<u>-</u>	
FUND DEFICIT - END OF PERIOD			<u>\$ 357,194</u>	

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
Francis D. Pastorius Mastery Charter School
Philadelphia, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of Francis D. Pastorius Mastery Charter School, as of June 30, 2014 and for the period June 17, 2013 (date of inception) to June 30, 2014, and the related notes to the financial statements, which collectively comprise Francis D. Pastorius Mastery Charter School'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 Francis D. Pastorius Mastery Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Francis D. Pastorius Mastery Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Francis D. Pastorius Mastery Charter School's internal control.

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

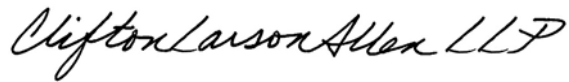
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

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