

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Mastery Charter School — John Wister 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 — John Wister Elementary, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of Mastery Charter School — John Wister Elementary as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of revenues, expenditures, and changes in fund balance — budget and actual on pages 3 through 6 and page 24 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 10, 2017 on our consideration of Mastery Charter School — John Wister 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 solely 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 the effectiveness of Mastery Charter School — John Wister Elementary's 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 — John Wister Elementary's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 10, 2017

**MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017**

The management of Mastery Charter School — John Wister 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 year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the School’s financial statements.

On May 19, 2016, the School was granted a new charter by the Commonwealth of Pennsylvania as “Mastery Charter School — John Wister Elementary” for a term of July 1, 2016 to June 30, 2021, under the new management of the Mastery Charter Schools.

Financial Highlights

- Total revenues were \$6,715,881 and primarily consisted of local educational agency subsidies, federal sources, other grants and contributions, and other local sources.
- At the close of the current fiscal year, the School reports ending net position of \$544,072.
- At the close of the period ended June 30, 2017, the School reports an ending fund balance of (\$212,716).
- The School’s cash balance at June 30, 2017 was \$549,294.

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, 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.

**MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017**

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

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.

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 \$544,072 as of June 30, 2017.

Current and Other Assets	\$ 1,119,738
Capital Assets	836,256
Total Assets	1,955,994
Current Liabilities	1,348,778
Noncurrent Liabilities	63,144
Total Liabilities	1,411,922
Net Investment in Capital Assets	756,788
Unrestricted	(212,716)
Total Net Position	\$ 544,072

**MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017**

Government-Wide Financial Analysis (Continued)

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

REVENUES

Local Educational Agencies	\$ 5,050,904
State Sources	5,198
Federal Sources	451,327
Other Grants and Contributions	760,000
Other Local Sources	<u>448,452</u>
Total Revenues	<u>6,715,881</u>

EXPENDITURES

Instruction	2,892,278
Special Education	750,324
Instruction Support Services	569,748
Administration Support	859,844
Pupil Health	58,749
Transportation	188
Business Support	34,883
Operations and Maintenance	801,342
Other Support Services	64,215
Student Activities	44,652
Interest Expense	6,431
Depreciation Expense	<u>89,155</u>
Total Expenditures	<u>6,171,809</u>

Change in Net Position	544,072
Net Position - Beginning	<u>-</u>
Net Position - Ending	<u><u>\$ 544,072</u></u>

**MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017**

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 <\$212,716>. For the period ended June 30, 2017, the School's expenditures (\$7,018,257) exceeded revenues and other financing sources (\$6,805,541) by \$212,716.

General Fund Budgetary Highlights

Actual revenues were less than budgeted revenue by \$510,213 due to less than budgeted local sources and other grants and contributions offset by higher than budgeted federal sources and other local sources. Actual expenditures were more than budgeted expenditures by \$15,146 due to greater than expected instruction, support services, noninstructional services, and capital lease expenditures offset by less than budgeted facilities and start up expenditures.

Capital Asset

As of June 30, 2017, the School's investment in capital assets for its governmental activities totaled \$756,788 (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 \$240,890 for furniture
- Capital expenditures of \$256,987 for equipment
- Capital expenditures of \$337,874 for leasehold improvements
- Capital expenditures of \$89,660 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, 2017, the School has long-term debt of \$79,468 for capital lease obligations.

Economic Factors and Next Year's Budgets and Rates

The School's primary source of revenue, per pupil funding from School District of Philadelphia, is expected to increase 2.3% from \$8,139 to \$8,327 per regular education student and increase from \$24,574 to \$26,197 per special education student.

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 – JOHN WISTER ELEMENTARY
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash	\$ 549,294
Federal Subsidies Receivable	451,327
Other Receivables	92,325
Prepaid Expenses	26,792
Total Current Assets	1,119,738
CAPITAL ASSETS, NET	
	836,256
Total Assets	1,955,994
LIABILITIES	
CURRENT LIABILITIES	
Capital Lease Obligation - Current Maturities	16,324
Accounts Payable	163,764
Accrued Expenses	620,870
Due to Other Governmental Entities	547,820
Total Current Liabilities	1,348,778
LONG-TERM LIABILITIES	
Capital Lease Obligation - Net of Current Portion	63,144
Total Long-Term Liabilities	63,144
Total Liabilities	1,411,922
NET POSITION	
Net Investment in Capital Assets	756,788
Unrestricted	(212,716)
Total Net Position	\$ 544,072

See accompanying Notes to Financial Statements.

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Functions	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities
Governmental Activities:			
Instruction	\$ 2,892,278	\$ 451,327	\$ (2,440,951)
Special Education	750,324	-	(750,324)
Instruction Support Services	569,748	-	(569,748)
Administration Support	859,844	-	(859,844)
Pupil Health	58,749	-	(58,749)
Transportation	188	-	(188)
Business Support	34,883	-	(34,883)
Operations and Maintenance	801,342	-	(801,342)
Other Support Services	64,215	-	(64,215)
Student Activities	44,652	-	(44,652)
Interest Expense	6,431	-	(6,431)
Depreciation Expense	89,155	-	(89,155)
Total	<u>\$ 6,171,809</u>	<u>\$ 451,327</u>	(5,720,482)
General Revenues:			
Local Educational Agencies			5,050,904
State Grants and Reimbursements			5,198
Other Grants and Contributions			760,000
Other Local Sources			448,452
Total General Revenues			<u>6,264,554</u>
Change in Net Position			544,072
Net Position - Beginning of Year			-
Net Position - End of Year			<u>\$ 544,072</u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund
ASSETS	
Cash	\$ 549,294
Federal Subsidies Receivable	451,327
Other Receivables	92,325
Prepaid Expenses	26,792
Total Assets	\$ 1,119,738
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 163,764
Accrued Expenses	401,198
Other Liabilities	219,672
Due to Other Governmental Entities	547,820
Total Liabilities	1,332,454
FUND BALANCE	
Nonspendable:	
Prepaid Expenses	26,792
Unassigned	(239,508)
Total Fund Balance	(212,716)
Total Liabilities and Fund Balance	\$ 1,119,738

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balance for Governmental Funds \$ (212,716)

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 836,256

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:

(79,468)

Total Net Position of Governmental Activities

\$ 544,072

**MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>General Fund</u>
REVENUES	
Local Educational Agencies	\$ 5,050,904
State Sources	5,198
Federal Sources	451,327
Other Grants and Contributions	760,000
Other Local Sources	<u>448,452</u>
Total Revenues	<u>6,715,881</u>
EXPENDITURES	
Instruction	3,970,900
Support Services	2,913,045
Noninstructional Services	44,652
Capital Lease Expenditures	<u>89,660</u>
Total Expenditures	<u>7,018,257</u>
EXCESS OF REVENUES OVER EXPENDITURES	(302,376)
OTHER FINANCING SOURCES AND USES	
Proceeds from Capital Lease Obligation	<u>89,660</u>
NET CHANGE IN FUND BALANCE	(212,716)
Fund Balance - Beginning of Year	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ (212,716)</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – JOHN WISTER 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, 2017**

Net Change in Fund Balance – Total Governmental Funds \$ (212,716)

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	925,411
Depreciation Expense	(89,155)

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

Capital Lease Obligations	<u>(79,468)</u>
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Change in Net Position of Governmental Activities \$ 544,072

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The Mastery Charter School — John Wister Elementary (the School) was formed as a Pennsylvania nonprofit corporation to operate in accordance with Pennsylvania Act 22 of 1997. On May 19, 2016, the School was granted a new charter by the Commonwealth of Pennsylvania as “Mastery Charter School — John Wister Elementary” for a term of July 1, 2016 to June 30, 2021, in accordance with Pennsylvania Act 22 of 1997. During the year ended June 30, 2017, the School served approximately 515 students in grades kindergarten through fifth.

Basis of Presentation

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing 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 functions 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 total of assets less liabilities.

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

**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 and a statement of activities. 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 – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

**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 accounting principles generally accepted in the United States of America. An annual budget is adopted for the General Fund.

The budgetary comparison schedule presents 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 2016. An amended budget was approved by the board of trustees in January 2017. The budget is required supplementary information.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of 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 (FDIC) limit of \$250,000, with financial institutions. At times, cash in bank may exceed FDIC insurable limits.

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

**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 amounts of paid claims in excess of \$150,000 on any individual covered by the Plan in the policy year ending June 30, 2017. The stop-loss insurance provides \$1,000,000 of coverage in addition to our aggregate annual claims limit of \$14,960,369 for the fiscal year ending June 30, 2017. The annual claims limit is based on the average enrollment of 1,253 covered employees, but is ultimately derived based on the actual covered employees times a monthly claims factor of \$995, for each month of the policy period.

During the year ended June 30, 2017, 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, 2017, 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 net position as an accrued liability.

The Plan liability as of June 30, 2017 is \$1,295,723, and is included on the Mastery Charter High School's financial statements. Total expense under the program was approximately \$13,748,000, which includes Mastery Charter School — John Wister Elementary's portion of \$354,206 for the year ended June 30, 2017.

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, 2017, no allowance for doubtful accounts was deemed warranted.

Prepaid Expenses

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

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

**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 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 36 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.

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. As of June 30, 2017, \$319,086 of the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 319,086
Total Custodial Credit Risk	<u>\$ 319,086</u>

Reconciliation to the financial statements:

Custodial Credit Risk from Above	\$ 319,086
Plus: Insured Amount	250,000
Less: Outstanding Checks	(20,792)
Plus: Petty Cash	1,000
Total Cash Per the Financial Statements	<u>\$ 549,294</u>

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 Equipment	5 Years

Capital asset activity for the period is summarized below:

Description	Balance July 1, 2016	Deletions	Additions	Balance June 30, 2017
Equipment	\$ -	\$ -	\$ 256,987	\$ 256,987
Furniture	-	-	240,890	240,890
Leasehold Improvements	-	-	337,874	337,874
Capital Lease Equipment	-	-	89,660	89,660
Total	-	-	925,411	925,411
Less: Accumulated				
Depreciation	-	-	89,155	89,155
Capital Assets, Net	\$ -	\$ -	\$ 836,256	\$ 836,256

NOTE 4 CAPITAL LEASE OBLIGATIONS

The School leases several copiers under a capital lease that expire September 2021. As of June 30, 2017, the leased copiers are reflected at a cost of \$89,660 and related accumulated depreciation of \$17,932. The lease requires monthly payments of principal and interest amounting to \$1,847, at an interest rate of 8.10% per annum.

Future minimum payments under the capital lease as of June 30, 2017 are as follows:

Year Ending June 30,	Amount
2018	\$ 22,164
2019	22,164
2020	22,164
2021	22,164
2022	5,541
Total	94,197
Less: Amount Representing Interest	14,729
Present Value of Minimum Lease Payments	\$ 79,468

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 CAPITAL LEASE OBLIGATIONS (CONTINUED)

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Lease Obligation	<u>\$ -</u>	<u>\$ 89,660</u>	<u>\$ 10,192</u>	<u>\$ 79,468</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, 2017, the rate for the School District of Philadelphia was \$8,139 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 \$5,050,904 for the period ended June 30, 2017.

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, 2017 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

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 can contribute up to 5% of their qualified compensation, with the School matching up to 5% of their qualified compensation. The School's contribution to the Plan for the period ended June 30, 2017 was \$115,369.

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 RETIREMENT PLAN (CONTINUED)

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become vested in School contributions and earnings on School contributions after one year of service. Nonvested contributions are forfeited upon termination of employment and such forfeitures are used to pay a portion of the Plan's administrative expenses.

The School had no liability to the Plan at June 30, 2017.

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.

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, 2016, 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 \$429,327 for the period ending June 30, 2017.

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, Francis D. Pastorius Mastery Charter School, Grover Cleveland Mastery Charter School, and Frederick Douglass Mastery Charter School are considered related parties as a result of common members of the boards and the management of the schools.

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 RELATED PARTY TRANSACTIONS (CONTINUED)

The following represents amounts due to and from related parties as of June 30, 2017:

	Due from (Receivable)	Due to (Payable)
Due to/from Other Governmental Entities (all Schools)	\$ -	\$ 547,820

NOTE 11 RECENT ACCOUNTING PRONOUNCEMENTS

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local government employers through OPEB plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employees through OPEB plans that are not administered through trusts or equivalent arrangements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2017. This Statement will become effective for June 30, 2018 year-end. The School has determined that GASB 75 will have no effect on its financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a nonprofit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The provisions in Statement No. 80 are effective for reporting periods beginning after June 15, 2016. The School has determined that GASB 80 had no effect on its financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for reporting periods beginning after December 15, 2016. The School has determined that Statement No. 81 will have no effect on its financial statements.

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 14, No. 68, and No. 73*. Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for reporting periods beginning after June 15, 2016. The School has determined that GASB 82 had no effect on its financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. Statement 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The provisions in Statement No.83 are effective for reporting periods beginning after June 15, 2018. The School has not yet completed the process of evaluating the impact of GASB 83 on its financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions in Statement No.84 are effective for reporting periods beginning after December 15, 2018. The School has not yet completed the process of evaluating the impact of GASB 84 on its financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions in Statement No.85 are effective for reporting periods beginning after June 15, 2017. The School has not yet completed the process of evaluating the impact of GASB 85 on its financial statements.

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which is effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The School has not yet completed the process of evaluating the impact of GASB 86 on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions in Statement No.87 are effective for reporting periods beginning after December 15, 2019. The School has not yet completed the process of evaluating the impact of GASB 87 on its financial statements.

MASTERY CHARTER SCHOOL – JOHN WISTER ELEMENTARY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
(UNAUDITED)
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources	\$ 5,460,633	\$ 5,132,829	\$ 5,050,904	\$ (81,925)
State Sources	5,405	5,364	5,198	(166)
Federal Sources	331,266	328,718	451,327	122,609
Other Grants and Contributions	1,518,000	1,730,000	760,000	(970,000)
Other Local Sources	29,183	29,183	448,452	419,269
Total Revenues	<u>7,344,487</u>	<u>7,226,094</u>	<u>6,715,881</u>	<u>(510,213)</u>
EXPENDITURES				
Instruction	3,511,442	3,430,476	3,970,900	540,424
Support Services	2,183,977	2,312,935	2,913,045	600,110
Noninstructional Services	29,700	29,700	44,652	14,952
Facilities and Start Up	1,525,000	1,230,000	-	(1,230,000)
Capital Lease Expenditures	-	-	89,660	89,660
Total Expenditures	<u>7,250,119</u>	<u>7,003,111</u>	<u>7,018,257</u>	<u>15,146</u>
EXCESS OF REVENUES OVER EXPENDITURES	94,368	222,983	(302,376)	(525,359)
OTHER FINANCING SOURCES AND USES				
Proceeds from Capital Lease Obligation	-	-	89,660	89,660
NET CHANGE IN FUND BALANCE	<u>\$ 94,368</u>	<u>\$ 222,983</u>	(212,716)	<u>\$ (435,699)</u>
Fund Balance - Beginning of Year			-	
FUND BALANCE - END OF YEAR			<u>\$ (212,716)</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
Mastery Charter School — John Wister 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 — John Wister Elementary, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Mastery Charter School — John Wister Elementary's basic financial statements, and have issued our report thereon dated November 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mastery Charter School — John Wister 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 — John Wister Elementary's internal control. Accordingly, we do not express an opinion on the effectiveness of Mastery Charter School — John Wister 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 — John Wister 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 10, 2017



Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor.