

**MASTERY CHARTER HIGH SCHOOL**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2018**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Mastery Charter High School  
Philadelphia, Pennsylvania

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Mastery Charter High School, as of and for the year ended June 30, 2018, 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, business-type activities and each major fund of Mastery Charter High School as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**

As discussed in Note 14 to the financial statements, Mastery Charter High School adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, for the year ended June 30, 2018, which represents a change in accounting principle. As of July 1, 2017, Mastery Charter High School's net position was restated to reflect the impact of adoption. Our opinion is not modified with respect to this matter.

As discussed in Note 14 to the financial statements, Mastery Charter High School removed the Network Support Team Activities (NST) from the general fund and reported NST as an enterprise fund, this represents a change in accounting principle. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7, the schedule of revenues, expenditures, and changes in fund balance – budget and actual on page 42, the schedules of proportionate share of PSERS net pension liability and contributions on page 43, and the schedules of proportionate share of net OPEB liability and contributions on pages 44 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mastery Charter High School's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018 on our consideration of Mastery Charter High 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 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 High School'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 High School's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 15, 2018

**MASTERY CHARTER HIGH SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2018**

The management of Mastery Charter High School (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

**Financial Highlights**

Total revenues increased by \$5,779,445 to \$38,920,476 primarily due to increase in local educational agency sources, federal sources, state sources, and management and technology fees offset by decreases in the other grants and contributions and other local sources for the year ended June 30, 2018.

At the close of the current fiscal year, the School reports ending net position of (\$16,741,126). This net position balance represents an increase in net position of \$2,032,727, which includes the impact of restatement for the OPEB liability of (\$1,249,000), for the year ended June 30, 2018.

At the close of the current fiscal year, the School reports an ending general fund balance of \$576,636. This general fund balance includes a restatement of \$705,531 due to the change in accounting principle to account for the Network Support Team Activities as an enterprise fund and an increase of \$170,836 for the year ended June 30, 2018.

The School's cash balance at June 30, 2018 was \$5,215,204, representing an increase of \$102,941 from June 30, 2017.

**Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements as presented comprise four components: Management's Discussion and Analysis (this section), the basic financial statements, budgetary comparison, and reporting required under *Government Auditing Standards* and Uniform Guidance.

***Government-Wide Financial Statements***

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

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

The *statement of activities* presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School.

**MASTERY CHARTER HIGH SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2018**

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

***Fund Financial Statements***

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

***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows exceeded assets and deferred outflows by \$16,741,126 as of June 30, 2018.

	2018			2017
	Governmental Activities	Business-type Activities	Total	
Current and Other Assets	\$ 1,793,733	\$ 7,750,406	\$ 9,544,139	\$ 7,709,697
Capital Assets	6,542,974	3,347,561	9,890,535	9,862,325
Total Assets	8,336,707	11,097,967	19,434,674	17,572,022
Deferred Outflows	1,011,150	2,734,163	3,745,313	4,856,805
Current Liabilities	1,234,793	5,252,012	6,486,805	6,639,869
Noncurrent Liabilities	7,737,749	20,815,633	28,553,382	30,166,868
Total Liabilities	8,972,542	26,067,645	35,040,187	36,806,737
Deferred Inflows	1,317,765	3,563,161	4,880,926	4,395,943
Net Investment in Capital Assets	6,479,829	3,323,838	9,803,667	9,733,954
Unrestricted	(7,422,279)	(19,122,514)	(26,544,793)	(28,507,807)
Total Net Position	<u>\$ (942,450)</u>	<u>\$ (15,798,676)</u>	<u>\$ (16,741,126)</u>	<u>\$ (18,773,853)</u>



**MASTERY CHARTER HIGH SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2018**

**Government-Wide Financial Analysis (Continued)**

The School's revenues are predominately from the School District of Philadelphia, based on the student enrollment, management and technology fees, and donations from private sources and awards from federal sources.

	2018			2017
	Governmental Activities	Business-type Activities	Total	
<b>REVENUES</b>				
Local Educational Agencies	\$ 7,910,604	\$ 258,502	\$ 8,169,106	\$ 7,248,050
State Sources	50,151	169,622	219,773	192,767
Federal Sources	705,859	8,766,328	9,472,187	6,782,987
Management and Technology Fees	-	17,701,017	17,701,017	14,694,802
Other Grants and Contributions	33,576	2,045,951	2,079,527	3,076,599
Other Local Sources	259,852	1,014,342	1,274,194	1,137,777
Interest	2,572	2,100	4,672	8,049
Total Revenues	<u>8,962,614</u>	<u>29,957,862</u>	<u>38,920,476</u>	<u>33,141,031</u>
<b>EXPENDITURES</b>				
Instruction	3,204,066	-	3,204,066	4,513,332
Special Education	2,466,277	-	2,466,277	3,521,373
Student Support Services	813,488	-	813,488	1,225,772
Instruction Support Services	3,749	-	3,749	4,333,803
Administration Support	1,064,109	-	1,064,109	8,198,892
Pupil Health	64,989	-	64,989	66,199
Business Services	61,943	-	61,943	1,958,227
Operations and Maintenance	400,443	-	400,443	984,134
Other Support Services	60,769	-	60,769	2,180,145
Food Services	-	-	-	2,813,135
Student Activities	124,356	-	124,356	168,148
Depreciation Expense	445,913	-	445,913	1,057,372
Interest Expense	6,319	-	6,319	9,145
Network Services Team Activities	-	26,922,328	26,922,328	-
Total Expenditures	<u>8,716,421</u>	<u>26,922,328</u>	<u>35,638,749</u>	<u>31,029,677</u>
Change in Net Position	246,193	3,035,534	3,281,727	2,111,354
Net Position - Beginning	(18,773,853)	-	(18,773,853)	(20,885,207)
Restatement for July 1, 2017, Business-Type Activities separated from Governmental Activities	17,922,440	(17,922,440)	-	-
Restatement for July 1, 2017, OPEB Liabilities	(337,230)	(911,770)	(1,249,000)	-
Net Position - Beginning of Year, as Restated	<u>(1,188,643)</u>	<u>(18,834,210)</u>	<u>(20,022,853)</u>	<u>(20,885,207)</u>
Net Position - Ending	<u>\$ (942,450)</u>	<u>\$ (15,798,676)</u>	<u>\$ (16,741,126)</u>	<u>\$ (18,773,853)</u>

**MASTERY CHARTER HIGH SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2018**

**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 \$576,636. For the year ended June 30, 2018, the School's revenues \$8,962,614 exceeded expenditures \$8,791,778 by \$170,836.

**General Fund Budgetary Highlights**

Actual revenues exceeded budgeted revenues by \$298,478 primarily due to more than expected local educational agency sources and other local sources. Actual expenditures exceeded budgeted expenditures by \$113,578 primarily due to more than budgeted instruction and noninstructional services.

**Capital Asset and Debt Administration**

***CAPITAL ASSETS***

As of June 30, 2018, the School's investment in capital assets for its governmental and business-type activities totaled \$9,803,667 (net of accumulated depreciation and related debt). This investment in capital assets includes building, building improvements, and equipment.

Major capital asset purchases during the year included the following:

- Capital expenditures of \$182,165 for building improvements
- Capital expenditures of \$1,113,680 for furniture and equipment

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

***LONG-TERM DEBT***

As of June 30, 2018, the School has \$86,868 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 from \$8,523 to \$9,099 per regular education student and increase from \$26,489 to \$29,300 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 HIGH SCHOOL  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 1,394,144	\$ 3,821,060	\$ 5,215,204
Federal Subsidies Receivable	224,434	1,361,237	1,585,671
Other Receivables	152,200	721,890	874,090
Due from Other Governmental Entities	-	20,290	20,290
Due from MCS Foundation	-	1,504,728	1,504,728
Prepaid Expenses	20,329	308,151	328,480
Deposits	2,626	13,050	15,676
Total Current Assets	1,793,733	7,750,406	9,544,139
<b>CAPITAL ASSETS, NET</b>	6,542,974	3,347,561	9,890,535
Total Assets	8,336,707	11,097,967	19,434,674
<b>DEFERRED OUTFLOWS</b>			
Deferred Outflows from Pensions - See Note 8	996,570	2,694,743	3,691,313
Deferred Outflows from OPEB - See Note 9	14,580	39,420	54,000
Total Deferred Outflows	1,011,150	2,734,163	3,745,313
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Capital Lease Obligation - Current Portion	17,696	5,790	23,486
Accounts Payable	206,517	1,509,503	1,716,020
Accrued Expenses and Deposits	998,225	2,832,083	3,830,308
Due to Other Governmental Entities	12,355	13,125	25,480
Unearned Revenue	-	891,511	891,511
Total Current Liabilities	1,234,793	5,252,012	6,486,805
<b>LONG-TERM LIABILITIES</b>			
Capital Lease Obligation - Net of Current Portion	45,449	17,933	63,382
Net OPEB Liability	304,830	824,170	1,129,000
Net Pension Liability	7,387,470	19,973,530	27,361,000
Total Long-Term Liabilities	7,737,749	20,815,633	28,553,382
Total Liabilities	8,972,542	26,067,645	35,040,187
<b>DEFERRED INFLOWS</b>			
Deferred Inflows from Pensions - See Note 8	1,276,301	3,451,054	4,727,355
Deferred Inflows from OPEB - See Note 9	41,464	112,107	153,571
Total Deferred Inflows	1,317,765	3,563,161	4,880,926
<b>NET POSITION</b>			
Net Investment in Capital Assets	6,479,829	3,323,838	9,803,667
Unrestricted	(7,422,279)	(19,122,514)	(26,544,793)
Total Net Position	\$ (942,450)	\$ (15,798,676)	\$ (16,741,126)

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

Functions	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>						
Instruction	\$ 3,204,066	\$ -	\$ 552,135	\$ (2,651,931)	\$ -	\$ (2,651,931)
Special Education	2,466,277	-	153,724	(2,312,553)	-	(2,312,553)
Student Support Services	813,488	-	-	(813,488)	-	(813,488)
Instruction Support Services	3,749	-	-	(3,749)	-	(3,749)
Administration Support	1,064,109	-	-	(1,064,109)	-	(1,064,109)
Pupil Health	64,989	-	-	(64,989)	-	(64,989)
Business Services	61,943	-	-	(61,943)	-	(61,943)
Operations and Maintenance	400,443	-	-	(400,443)	-	(400,443)
Other Support Services	60,769	-	-	(60,769)	-	(60,769)
Student Activities	124,356	-	-	(124,356)	-	(124,356)
Depreciation	445,913	-	-	(445,913)	-	(445,913)
Interest Expense	6,319	-	-	(6,319)	-	(6,319)
Total Governmental Activities	<u>8,716,421</u>	<u>-</u>	<u>705,859</u>	<u>(8,010,562)</u>	<u>-</u>	<u>(8,010,562)</u>
<b>Business-Type Activities:</b>						
Network Services Team Activities	26,922,328	17,701,017	8,766,328	-	(454,983)	(454,983)
Total Primary Government	<u>\$ 35,638,749</u>	<u>\$ 17,701,017</u>	<u>\$ 9,472,187</u>	<u>(8,010,562)</u>	<u>(454,983)</u>	<u>(8,465,545)</u>
<b>General Revenues:</b>						
Local Educational Agencies				7,910,604	258,502	8,169,106
State Grants and Reimbursements				50,151	169,622	219,773
Other Grants and Contributions				33,576	2,045,951	2,079,527
Other Local Sources				259,852	1,014,342	1,274,194
Interest				2,572	2,100	4,672
Total General Revenues				<u>8,256,755</u>	<u>3,490,517</u>	<u>11,747,272</u>
Change in Net Position				246,193	3,035,534	3,281,727
Net Position - Beginning of Year				(18,773,853)	-	(18,773,853)
Restatement for July 1, 2017, Business-Type Activities separated from Governmental Activities				17,922,440	(17,922,440)	-
Restatement for July 1, 2017, OPEB Liabilities				(337,230)	(911,770)	(1,249,000)
Net Position - Beginning of Year, as Restated				<u>(1,188,643)</u>	<u>(18,834,210)</u>	<u>(20,022,853)</u>
Net Position - End of Year				<u>\$ (942,450)</u>	<u>\$ (15,798,676)</u>	<u>\$ (16,741,126)</u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	<u>2018 General Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,394,144
Federal Subsidies Receivable	224,434
Other Receivables	152,200
Prepaid Expenses	20,329
Deposits	2,626
Total Assets	<u>\$ 1,793,733</u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 206,517
Accrued Expenses and Deposits	998,225
Due to Other Governmental Entities	12,355
Total Liabilities	<u>1,217,097</u>
<b>FUND BALANCE</b>	
Nonspendable:	
Prepaid Expenses	20,329
Deposits	2,626
Committed to:	
Future Budget Deficits	300,000
Designated for Facilities Reserve	250,000
Unassigned	3,681
Total Fund Balance	<u>576,636</u>
Total Liabilities and Fund Balance	<u>\$ 1,793,733</u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

<b>Total Fund Balance for Governmental Funds</b>		\$ 576,636
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		6,542,974
Capital lease obligations used in governmental funds are not financial resources and, therefore, are not reported in the fund liabilities. The total capital lease obligations, both current and long-term, are reported in the statement of net position.		
Balances at year-end are:		(63,145)
Long-term liabilities that pertain to governmental funds, including net pension obligations, net OPEB liability, deferred outflows and deferred inflows are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.		
Pension		(7,667,201)
OPEB		(331,714)
		(942,450)
<b>Total Net Position of Governmental Activities</b>		<b>\$ (942,450)</b>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2018**

	<u>General Fund</u>
<b>REVENUES</b>	
Local Educational Agencies	\$ 7,910,604
State Sources	50,151
Federal Sources	705,859
Other Grants and Contributions	33,576
Other Local Sources	259,852
Interest	2,572
Total Revenues	<u>8,962,614</u>
 <b>EXPENDITURES</b>	
Instruction	5,863,273
Support Services	2,808,306
Noninstructional Services	120,199
Total Expenditures	<u>8,791,778</u>
 <b>NET CHANGE IN FUND BALANCE</b>	 170,836
 Fund Balance - Beginning of Year	 1,111,331
Restatement for July 1, 2017, Business-Type Activities separated from Governmental Activities	 <u>(705,531)</u>
Fund Balance - Beginning of Year, Restated	<u>405,800</u>
 <b>FUND BALANCE - END OF YEAR</b>	 <u><u>\$ 576,636</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

**Net Change in Fund Balance - Total Governmental Funds** \$ 170,836

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

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

Depreciation Expense	(445,913)
Capital Outlays	149,627

Governmental Funds report school pension and OPEB contributions as expenditures. However, in the statement of activities, the cost incurred for future pension and OPEB benefits is reported as pension and OPEB expense, as follows:

Change in Pension Expense	329,965
Change in OPEB Expense	5,516

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	36,162
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**Change in Net Position of Governmental Activities** \$ 246,193



**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2018**

	Network Support Team Activities Fund
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	\$ 3,821,060
Federal Subsidies Receivable	1,361,237
Other Receivables	721,890
Due from Other Governmental Entities	20,290
Due from Foundation	1,504,728
Prepaid Expenses	308,151
Deposits	13,050
Total Current Assets	7,750,406
<b>NONCURRENT ASSETS</b>	
Capital Assets, Net	3,347,561
Total Assets	11,097,967
<b>DEFERRED OUTFLOWS</b>	
Deferred Outflows from Pensions - See Note 8	2,694,743
Deferred Outflows from OPEB - See Note 9	39,420
Total Deferred Outflows	2,734,163
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Capital Leases Payable - Due Within One Year	5,790
Accounts Payable	1,509,503
Accrued Expenses	2,832,083
Due to Other Governmental Entities	13,125
Unearned Revenue	891,511
Total Liabilities	5,252,012
<b>NONCURRENT LIABILITIES</b>	
Capital Leases Payable - Due in More Than One Year	17,933
OPEB Liability	824,170
Net Pension Liability	19,973,530
Total NonCurrent Liabilities	20,815,633
Total Liabilities	26,067,645
<b>DEFERRED INFLOWS</b>	
Deferred Inflows from Pensions - See Note 8	3,451,054
Deferred Inflows from OPEB - See Note 9	112,107
Total Deferred Inflows	3,563,161
<b>NET POSITION</b>	
Net Investment in Capital Assets	3,323,838
Unassigned	(19,122,514)
Total Net Position	\$ (15,798,676)

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2018**

	<u>Network Support Team Activities Fund</u>
<b>OPERATING REVENUES</b>	
Local Educational Agencies - Exchange	\$ 258,502
State Sources	169,622
Federal Sources	8,766,328
Management and Technology Fees	17,701,017
Other Grants and Contributions	2,045,951
Other Local Sources	1,014,342
Total Operating Revenues	29,955,762
<b>OPERATING EXPENDITURES</b>	
Instruction	3,244,428
Support Services	17,500,210
Noninstructional Services	2,278,320
Food Services	3,896,563
Student Activities	2,807
Total Operating Expenditures	26,922,328
<b>OPERATING INCOME</b>	3,033,434
<b>NONOPERATING REVENUE (EXPENSE)</b>	
Interest	2,100
<b>CHANGE IN NET POSITION</b>	3,035,534
Net Position - Beginning of Year	-
Restatement for July 1, 2017, Business-Type Activities separated from Governmental Activities	(17,922,440)
Restatement for July 1, 2017, OPEB Liabilities	(911,770)
Net Position - Beginning of Year, as Restated	(18,834,210)
<b>NET POSITION - END OF YEAR</b>	<b>\$ (15,798,676)</b>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2018**

	<u>Network Support Team Activities Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Local Educational Sources	\$ 1,272,844
State Sources	169,622
Federal Sources	8,500,606
Management and Technology Fees	17,701,017
Other Grants and Contributions	1,751,222
Payments to Suppliers and Vendors	(8,456,650)
Payments to Employees	<u>(19,197,442)</u>
Net Cash Provided by Operating Activities	1,741,219
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of Capital Assets	(1,146,218)
Repayment of Capital lease	<u>(5,341)</u>
Net Cash Used by Capital and Related Financing Activities	(1,151,559)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest	<u>2,100</u>
Net Cash Provided by Investing Activities	2,100
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	591,760
Cash and Cash Equivalents - Beginning of Year	<u>3,229,300</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 3,821,060</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2018**

**RECONCILIATION OF OPERATING INCOME  
TO NET CASH PROVIDED BY OPERATING  
ACTIVITIES**

Operating Income	\$	3,033,434
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense		821,721
Effect of Changes in Operating Assets and Liabilities:		
Increase in Federal Subsidies Receivable		(265,722)
Increase in Other Receivables		(721,890)
Decrease in Due from Other Governmental Entities		1,164,369
Increase in Due from Foundation		(1,504,728)
Increase in Prepaid Expense		(138,908)
Decrease in Accounts Payable		17,142
Decrease in Accrued Expense		(524,676)
Decrease in Due to Other Governments		(3,573)
Increase in Unearned Revenue		771,093
Decrease in Net Pension Liability		(1,984,870)
Decrease in Net OPEB Liability		(129,940)
Decrease in Deferred Outflows of Resources Related to Pensions		851,038
Decrease in Deferred Outflows of Resources Related to OPEB		2,607
Increase in Deferred Inflows of Resources Related to Pensions		241,702
Increase in Deferred Inflows of Resources Related to OPEB		112,420
Total Adjustments		<u>(1,292,215)</u>
Net Cash Provided by Operating Activities	\$	<u><u>1,741,219</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Background**

Mastery Charter High School (School), formerly known as High Tech High Philadelphia Charter School and located at the Lenfest Campus, was formed as a Pennsylvania nonprofit corporation in November 2000. The School was granted a charter by the Commonwealth of Pennsylvania to operate an independent public school for an initial five-year term beginning September 1, 2001, in accordance with Pennsylvania Act 22 of 1997. The charter was renewed in June 2015 for an additional five-year term of July 1, 2015 through June 30, 2020. During the year ended June 30, 2018, the school served 580 students in grades 7 through 12.

The Mastery Charter Schools use a Network Support Team Activities (NST) for their educational, administrative, and financial services. The NST is a separate fund and considered a business-type activity. See Note 11 for an additional description of the management agreement with the NST department.

**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.

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 and deferred outflows of resources less liabilities and deferred inflows of resources.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

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 120 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods. The principal operating revenues of the School's proprietary fund are charges to all of the Mastery schools for management and technology services. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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.

The government reports the following major enterprise fund:

Network Support Team Activities Fund – Consists of the NST Fund. This fund is used to report any activity that provides goods or services to other funds, departments, or agencies of the various Mastery Charter Schools.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**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, and 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.
- 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.

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.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**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 in 2017 by the Labor, Education, and Community Services Comptroller's Office. An amended budget was approved by the board of trustees in January 2018. 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.

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

As of July 1, 2011, the Mastery Charter Schools and the NST (the Schools) adopted the self-funded benefit payment plan (the Plan). The Mastery Charter High School is the 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, 2018. 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, 2018. 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, 2018, 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, 2018, 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.



**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Significant Accounting Estimates – Self-Insured Claims (Continued)**

The liability amounted to \$1,235,000 as of June 30, 2018. Total expense under the program was approximately \$13,331,000, which includes Mastery Charter High School's portion of \$2,091,417 for the year ended June 30, 2018.

Changes in the balance of claims liabilities for the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Balance - July 1	\$ 1,295,723	\$ 1,298,560
Claims Incurred	12,353,000	11,823,913
Claims Paid	<u>(12,413,723)</u>	<u>(11,826,750)</u>
Balance - June 30	<u>\$ 1,235,000</u>	<u>\$ 1,295,723</u>

**Cash and Cash Equivalents**

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

**Accounts Receivable**

Accounts receivable primarily consist of amounts due from the Pennsylvania Department of Education for federal and state subsidy programs. Accounts receivable are stated at the amount management expects to collect from outstanding balances. As of June 30, 2018, 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 rental payments and 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 year. The School does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the assets. Software costs are depreciated over 36 months using the straight-line method.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Pensions and Other Postemployment Benefits**

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

***General Information about the Pension Plan***

**Plan Description**

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

**Benefits Provided**

PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, or the member's final average salary (as defined in the Code) multiplied by the number of years of credited service.

For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

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

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Pensions and Other Postemployment Benefits (Continued)**

Benefits Provided (Continued)

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or who has at least five years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Contributions

***Member Contributions:***

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

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

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

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

***Employer Contributions:***

The employers contractually required contribution rate for fiscal year ended June 30, 2018 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the employer were \$2,029,000 for the year ended June 30, 2018.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Other Postemployment Benefits**

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

***General Information about the Health Insurance Premium Assistance Program***

**Health Insurance Premium Assistance Program**

PSERS provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS Health Options Program (HOP). As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

**Premium Assistance Eligibility Criteria**

Retirees of the System can participate in the Premium Assistance program if they satisfy the following criteria:

- Have 24 ½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

**Benefits Provided**

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017, there were not assumed future benefit increases to participating eligible retirees.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**Other Postemployment Benefits (Continued)**

**Employer Contributions**

The School's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the School were \$53,000 for the year ended June 30, 2018.

**Income Tax Status**

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

**NOTE 2 CASH AND CASH EQUIVALENTS**

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School invests in repurchase agreements with its bank wherein the funds are secured by obligations of the U.S. government or agencies or instrumentalities of the U.S. government. As of June 30, 2018, \$4,992,952 of the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 4,992,952
Total Custodial Credit Risk	<u>\$ 4,992,952</u>

Reconciliation to the financial statements:

Total Custodial Credit Risk	\$ 4,992,952
Plus: Insured Amount	500,000
Less: Outstanding Checks	(277,748)
Total Cash per the Financial Statements	<u>\$ 5,215,204</u>

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**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:

Building and Improvements	30 Years
Furniture and Equipment	5 to 7 Years
Capital Lease Equipment	5 Years
Software	3 Years

Governmental Activities capital assets consist of the following at June 30, 2018:

	Balance July 1, 2017	Deletions	Additions	Balance June 30, 2018
Land	\$ 267,500	\$ -	\$ -	\$ 267,500
Building and Improvements	11,336,564	-	149,627	11,486,191
Furniture and Equipment	852,230	-	-	852,230
Capital Lease Equipment	231,720	-	-	231,720
Software	210,471	-	-	210,471
Total	12,898,485	-	149,627	13,048,112
Less: Accumulated				
Depreciation	6,059,225	-	445,913	6,505,138
Total Capital Assets, Net	\$ 6,839,260	\$ -	\$ (296,286)	\$ 6,542,974

Depreciation expense charged to governmental functions amounted to \$445,913 in 2018.

Business-Type Activities capital assets consist of the following at June 30, 2018:

	Balance July 1, 2017	Deletions	Additions	Balance June 30, 2018
Building and Improvements	\$ 1,200,115	\$ -	\$ 32,538	\$ 1,232,653
Furniture and Equipment	3,442,326	-	1,113,680	4,556,006
Capital Lease Equipment	83,340	-	-	83,340
Software	692,668	-	-	692,668
Total	5,418,449	-	1,146,218	6,564,667
Less: Accumulated				
Depreciation	2,395,385	-	821,721	3,217,106
Total Capital Assets, Net	\$ 3,023,064	\$ -	\$ 324,497	\$ 3,347,561

Depreciation expense charged to business-type functions amounted to \$821,721 in 2018.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 4 CAPITAL LEASE OBLIGATIONS**

The School leases copiers under capital leases that expire February 2022. As of June 30, 2018, the leased copiers are reflected at a cost of \$315,060 and related accumulated depreciation of \$240,532. The leases require monthly payments of principal and interest ranging from \$625 to \$1,847 at rate ranging of 4.79% to 8.97% per annum.

Future minimum payments under the capital leases as of June 30, 2018 are as follows:

<u>Year Ending June 30.</u>	<u>Governmental Activities Amount</u>	<u>Business-Type Activities Amount</u>
2019	\$ 22,164	\$ 7,500
2020	22,164	7,500
2021	22,164	7,500
2022	5,541	5,000
Total	<u>72,033</u>	<u>27,500</u>
Less: Amount Representing Interest	8,888	3,777
Present Value of Minimum Lease Payments	<u>\$ 63,145</u>	<u>\$ 23,723</u>

The following is a summary of changes in Governmental Activities long-term debt for the year ended June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital Lease Obligation	<u>\$ 99,307</u>	<u>\$ -</u>	<u>\$ 36,162</u>	<u>\$ 63,145</u>
Total Long-Term Debt	<u>\$ 99,307</u>	<u>\$ -</u>	<u>\$ 36,162</u>	<u>\$ 63,145</u>

The following is a summary of changes in Business-Type Activities long-term debt for the year ended June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital Lease Obligation	<u>\$ 29,064</u>	<u>\$ -</u>	<u>\$ 5,341</u>	<u>\$ 23,723</u>
Total Long-Term Debt	<u>\$ 29,064</u>	<u>\$ -</u>	<u>\$ 5,341</u>	<u>\$ 23,723</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 year ended June 30, 2018, the rate for the School District of Philadelphia was \$8,523 per year for regular education students plus additional funding for special education students. The annual rate is paid monthly by the School District of Philadelphia and is prorated if a student enters or leaves during the year. Total revenue from these sources was \$7,910,604 for the year ended June 30, 2018.

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**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 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, 2018 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE 7 RETIREMENT PLAN**

Effective July 1, 2012, the School was part of the Mastery Charter School 403(b) Retirement Plan, a multiple employer defined contribution plan under Section 403(b) of the Internal Revenue Code, which employees of the School can elect to contribute. Employees, who do not participate in the PSERS retirement plan, can contribute up to 5% of their qualified compensation, with the School matching up to 5% of their qualified compensation. Employees who participate in the PSERS retirement plan can also participate in the 403(b) plan, but these 403(b) contributions are not matched by the School. The School's combined governmental activity and business-type activity contributions to the Plan for the years ended June 30, 2018 and 2017 were \$488,590 and \$362,348 respectively.

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 services. 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, 2018.

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

The School's net pension liability for the PSERS Plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net pension liability was calculated utilizing the School's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the School's proportion was .0554%, which was a decrease of .0053% from its proportion measured as of June 30, 2016.



**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 8 PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)**

For the year ended June 30, 2018, the governmental functions and business-type functions recognized pension expense of \$223,469 and \$604,194, respectively. At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 76,950	\$ (44,550)	\$ 208,050	\$ (120,450)
Changes in Assumptions	200,610	-	542,703	-
Net Difference Between Projected and Actual Investment Earnings	171,180	-	462,820	-
Changes in Proportions	-	(1,213,888)	-	(3,282,309)
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	(17,862)	-	(48,295)
Contributions Subsequent to the Measurement Date	547,830	-	1,481,170	-
Total	<u>\$ 996,570</u>	<u>\$ (1,276,301)</u>	<u>\$ 2,694,743</u>	<u>\$ (3,451,054)</u>

The amount of \$2,029,000 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities Amount</u>	<u>Business-Type Activities Amount</u>
2019	\$ (455,634)	\$ (1,231,900)
2020	(152,792)	(413,104)
2021	(49,769)	(134,561)
2022	(169,366)	(457,916)
Total	<u>\$ (827,561)</u>	<u>\$ (2,237,481)</u>

**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 8 PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)**

**Actuarial Assumptions**

The total pension liability as of June 30, 2017 was determined by rolling forward the System's total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial Cost Method – Entry Age Normal – Level % of Pay
- Investment Return – The investment rate of return was 7.25%.
- Salary Increases – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.

The actuarial assumptions used in the June 30, 2017 valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS board at its June 10, 2016 board meeting, and were effective beginning with the June 30, 2016 actuarial valuation.

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

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

**Actuarial Assumptions (Continued)**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Public Equity	20 %	5.1 %
Fixed Income	36 %	2.6 %
Commodities	8 %	3.0 %
Absolute Return	10 %	3.4 %
Risk Parity	10 %	3.8 %
Infrastructure/MLPs	8 %	4.8 %
Real Estate	10 %	3.6 %
Alternative Investments	15 %	6.2 %
Cash	3 %	0.6 %
Financing (LIBOR)	(20)%	1.1 %
Total	<u>100 %</u>	

The above was the PSERS board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2017.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.25%. The projections of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net asset position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 8 PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)**

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

The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%), or 1 percentage point higher (8.25%) than the current rate (in thousands):

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Employer's Proportionate Share of the Net Pension Liability	\$ 33,679	\$ 27,361	\$ 22,027

**Pension Plan Fiduciary Net Position**

Detailed information about PSERS’ fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the PSERS’ website at [www.psers.pa.gov](http://www.psers.pa.gov).

**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS, BENEFIT EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OTHER POSTEMPLOYMENT BENEFITS**

At June 30, 2018, the School reported a liability of \$1,129,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System’s total OPEB liability as of June 30, 2016 to June 30, 2017. The School’s proportion of the net OPEB liability was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the School’s proportion was 0.0554%, which was a decrease of 0.0053% from its proportion measured as of June 30, 2016.

**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS, BENEFIT EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

For the year ended June 30, 2018, the School recognized OPEB credit of \$(20,429). At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Employer Contributions and Proportionate Share of Total Contributions	\$ -	\$ (694)	\$ -	\$ (1,877)
Changes in Assumptions	-	(14,310)	-	(38,690)
Net Difference Between Projected and Actual Investment Earnings	270	-	730	-
Changes in Proportions	-	(26,460)	-	(71,540)
Contributions Subsequent to the Measurement Date	14,310	-	38,690	-
Total	<u>\$ 14,580</u>	<u>\$ (41,464)</u>	<u>\$ 39,420</u>	<u>\$ (112,107)</u>

\$53,000 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities Amount</u>	<u>Business-Type Activities Amount</u>
2019	\$ (7,023)	\$ (18,989)
2020	(7,023)	(18,989)
2021	(7,023)	(18,989)
2022	(7,023)	(18,989)
2023	(7,023)	(18,989)
Thereafter	(6,078)	(16,433)
Total	<u>\$ (41,194)</u>	<u>\$ (111,377)</u>

**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS, BENEFIT EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2017, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2016, to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method was entry age normal, level percent of pay.
- Investment return – 3.13% - S&P 20 Year Municipal Bond Rate.
- Effective average salary growth of 5.0%, comprising 2.75% for inflation and 2.25% for real wage growth and for merit and seniority increases.
- Premium Assistance reimbursement benefits capped at \$1,200 per year.
- Assumed healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year and assume a trend rate of between 5% and 8%.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate pre-age 65 at 50%,
  - Eligible retirees will elect to participate post-age 65 at 70%.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2015, determined the employer contribution rate for fiscal year 2017.
- Cost method was developed using the amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method was market value.
- Participation rate assumed that 63% of eligible retirees will elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set-back 3 for both males and females for healthy annuitants and for dependent beneficiaries, with adjustments made for disabled annuitants.

**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS, BENEFIT EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

Investments consist primarily of short-term assets designed to protect the principal of the plan assets. The expected rate of return on OPEB plan investments was determined using the OPEB asset allocation policy and best estimates of geometric real rates of return for each asset class.

The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2017.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	76 %	0.6 %
Fixed Income	24 %	1.5 %
	<u>100 %</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 3.13% at June 30, 2017. Under the plan's funding policy, contributions are structured for short-term funding of Premium Assistance. The funding policy sets contribution rates necessary to assure solvency of Premium Assistance through the third fiscal year after the actuarial valuation date. The Premium Assistance account is funded to establish reserves that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Due to the short-term funding policy, the OPEB plan's fiduciary net position was not projected to be sufficient to meet projected future benefit payments; therefore, the plan is considered to be a pay-as-you-go plan. A discount rate of 3.13%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2017, was applied to all projected benefit payments to measure the total OPEB liability.

**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS, BENEFIT EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

Sensitivity of the System Net OPEB Liability to Change in Healthcare Cost Trend Rates

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2017, retirees Premium Assistance benefits are not subject to future healthcare cost increases. The annual Premium Assistance reimbursement for qualifying retirees is capped at a maximum of \$1,200. As of June 30, 2016, 91,797 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2016, 1,354 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the School's share of the Premium Assistance net OPEB liability at June 30, 2018, calculated using Healthcare Cost Trends as well as what the System net OPEB liability would be if the Healthcare Cost Trends were 1 percentage point lower or 1 percentage point higher than the current rate:

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (in Thousands)		
1% Decrease (between 4% and 7%)	Health Care Cost Trend Rates (between 5% and 8%)	1% Increase (between 6% and 9%)
\$ 1,128	\$ 1,129	\$ 1,129

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the discount rate

The following presents the net OPEB liability, calculated using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13%) or one percentage point higher (4.13%) than the current rate (3.13%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate (in Thousands)		
1% Decrease 2.13%	Correct Rate 3.13%	1% Increase 4.13%
\$ 1,283	\$ 1,129	\$ 1,001



**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS, BENEFIT EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

OPEB Plan Fiduciary Net Position

Detailed information about PSERS' fiduciary net position is available in the PSERS Comprehensive Annual Financial Report which can be found on the System's website at [www.psers.pa.gov](http://www.psers.pa.gov).

**NOTE 10 RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. There has been no significant reduction in insurance coverage from the previous year in any of the School's policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three years.

**NOTE 11 MANAGEMENT AND TECHNOLOGY AGREEMENTS**

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

As of July 1, 2017, the School entered into a one-year management agreement to receive educational, administrative, and financial services from NST. In addition, the School entered into a one-year management agreement with the other Mastery Charter Schools to provide educational, administrative, and financial services. As a result of common usage of the NST, the Mastery Charter Schools are considered related parties (see Note 12). The NST management fee is 8.5% of local school funds plus reimbursement for any costs NST incurs in providing the educational and administrative services. Unless specified notice is given, the agreement renews each year during the term of the School's charter. The total fee paid by the School to the NST was \$672,401 for the fiscal year. The total NST management fee revenue from the Mastery Charter Schools totaled \$16,120,376 for the fiscal year.

As of July 1, 2017, the School entered into a one-year technology and equipment agreement with the NST. In addition, the School entered into a one-year technology and equipment agreement with the other Mastery Charter Schools. A set fee was established with each of the other schools. These agreements renew annually. The total fee paid by the School to the NST was \$55,477 for the fiscal year. The total NST management fee revenue from the Mastery Charter Schools totaled \$1,580,641 for the fiscal year.

**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 12 RELATED PARTY TRANSACTIONS**

Mastery Charter School – Thomas Campus, Mastery Charter School – Shoemaker Campus, Mastery Charter School – Pickett Campus, Mastery Charter School – Mann Elementary, Mastery Charter School – Smedley Elementary, Mastery Charter School – Harrity Elementary, Mastery Charter School – Gratz Campus, Mastery Charter School – Clymer Elementary, Grover Cleveland Mastery Charter School, Francis D. Pastorius Mastery Charter School, Hardy Williams Academy Charter School, Frederick Douglass Mastery Charter School, and Mastery Charter School John Wister Elementary are considered related parties as a result of common members of the boards, the management of the schools, and common usage of the NST (see Note 11).

The following represents amounts due from and to related parties as of June 30, 2018 for balances due to (from) other Mastery Charter Schools.

	Mastery Charter High School		NST		Total	
	Due From (Receivable)	Due to (Payable)	Due From (Receivable)	Due to (Payable)	Due From (Receivable)	Due to (Payable)
Due from Other						
Governmental Entities	\$ -	\$ 12,355	\$ 20,290	\$ 13,125	\$ 20,290	\$ 25,480
Total	<u>\$ -</u>	<u>\$ 12,355</u>	<u>\$ 20,290</u>	<u>\$ 13,125</u>	<u>\$ 20,290</u>	<u>\$ 25,480</u>

**NOTE 13 SIGNIFICANT TRANSACTIONS**

There are significant transactions with Mastery Charter Schools Foundation (MCSF). During the year ended June 30, 2018, MCSF provided interest-free loans totaling \$800,000 to the School for general operating costs of NST. In addition, MCFS has the option of converting the loans to operating grants as stated by the terms of the agreements.

During the year ended June 30, 2018, MCFS exercised the agreement options and converted the loans to operating grants. The \$800,000 has been included in other grants and contributions revenue for the year ended June 30, 2018.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 14 CHANGE IN ACCOUNTING PRINCIPLE**

The School has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). Statement No. 75 requires the School to report its share of the liabilities, expense, deferred outflows of resources, and deferred inflows of resources allocated to it by the Public School Employees' Retirement System Health Insurance Premium Assistance Program, which is a defined benefit retiree healthcare plan administered by the Commonwealth of Pennsylvania. The July 1, 2017, balances of these other postemployment benefit liabilities (with "other" meaning "other than pensions"), known as OPEB liabilities, and related deferred outflows of resources and deferred inflows of resources, are reported in the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2017 Net position—beginning of year. The plan did not provide sufficient information to restate the June 30, 2017 financial statements.

During the fiscal year ended June 30, 2018, the management of Mastery Charter High School made the decision to change the financial reporting of the NST by removing NST from the Mastery Charter High School as a separate department of the general fund and reporting NST as an enterprise fund. A restatement is required to present the cumulative effect of the change in accounting principle as of July 1, 2017 on both the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balance — Governmental Funds. Management felt this change was preferable as NST provides services to all the Mastery Charter Schools.

As of July 1, 2017, net position has been restated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Position, Beginning of Year, as Previously Stated	\$ (18,773,853)	\$ -	\$ (18,773,853)
Balance of the Net OPEB Liability and Related Deferred Outflows of Resources	(337,230)	(911,770)	(1,249,000)
Business-Type Activities Separated from Governmental Activities	<u>17,922,440</u>	<u>(17,922,440)</u>	<u>-</u>
Net Position, Beginning of Year, as Restated	<u>\$ (1,188,643)</u>	<u>\$ (18,834,210)</u>	<u>\$ (20,022,853)</u>

As of July 1, 2017, general fund balance has been restated as follows:

	<u>General Fund</u>
Fund Balance, Beginning of Year, as Previously Stated	\$ 1,111,331
Business-Type Activities Separated from Governmental Activities	<u>(705,531)</u>
Fund Balance, Beginning of Year, as Restated	<u>\$ 405,800</u>

**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 15 RECENT ACCOUNTING PRONOUNCEMENTS**

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 is assessing if Statement No. 83 will have any impact 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 is assessing if Statement No. 84 will have any impact 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 adopted Statement No. 85 and no financial statement changes were noted.

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 is assessing if Statement No. 87 will have any impact on its financial statements.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 15 RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is effective for fiscal years beginning after June 15, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The School is assessing if Statement No. 88 will have any impact on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is effective for fiscal years beginning after December 15, 2019. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The School is assessing if Statement No. 89 will have any impact on its financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests*, which is effective for reporting periods beginning after December 15, 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The School is assessing if Statement No. 90 will have any impact on its financial statements.

**MASTERY CHARTER HIGH SCHOOL  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – GENERAL FUND  
(UNAUDITED)  
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Educational Agencies	\$ 7,887,426	\$ 7,832,000	\$ 7,910,604	\$ 78,604
State Sources	6,133	52,151	50,151	(2,000)
Federal Sources	577,900	710,985	705,859	(5,126)
Other Grants and Contributions	-	-	33,576	33,576
Other Local Sources	45,000	67,000	259,852	192,852
Interest	2,000	2,000	2,572	572
Total Revenues	<u>8,518,459</u>	<u>8,664,136</u>	<u>8,962,614</u>	<u>298,478</u>
<b>EXPENDITURES</b>				
Instruction	5,953,026	5,736,500	5,863,273	126,773
Support Services	2,616,637	2,841,700	2,808,306	(33,394)
Noninstructional Services	249,550	100,000	120,199	20,199
Total Expenditures	<u>8,819,213</u>	<u>8,678,200</u>	<u>8,791,778</u>	<u>113,578</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u><u>\$ (300,754)</u></u>	<u><u>\$ (14,064)</u></u>	170,836	<u><u>\$ 184,900</u></u>
Fund Balance - Beginning of Year			1,111,331	
Restatement of Beginning of Year Fund Balance			<u>(705,531)</u>	
Fund Balance - Beginning of Year, Restated			<u>405,800</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u><u>\$ 576,636</u></u>	

**MASTERY CHARTER HIGH SCHOOL  
SCHEDULES OF PROPORTIONATE SHARE OF  
PSERS NET PENSION LIABILITY AND CONTRIBUTIONS  
(UNAUDITED)**

Schedule of Proportionate Share of PSERS Net Pension Liability (NPL)  
PSERS Measurement Date (Unaudited)  
(in Thousands)

Fiscal Year	PSERS Net Pension Liability		School's Covered Employee Payroll	Proportionate Share of NPL as a Percent of Covered Employee Payroll	Fiduciary Net Position as a Percent of Total Pension Liability
	School's Proportion	School's Proportion Share			
2014/15	0.06970%	\$ 27,588	\$ 8,894	310%	57.2%
2015/16	0.06270%	\$ 27,159	\$ 8,062	337%	54.4%
2016/17	0.06070%	\$ 30,080	\$ 7,864	383%	50.1%
2017/18	0.05540%	\$ 27,361	\$ 7,377	371%	51.8%

PSERS Schedule of Contributions (Unaudited)  
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percent of Covered Employee Payroll
2014/15	\$ 1,580	\$ 1,580	\$ -	\$ 8,894	17.8%
2015/16	\$ 1,866	\$ 1,866	\$ -	\$ 8,062	23.1%
2016/17	\$ 2,093	\$ 2,093	\$ -	\$ 7,864	26.6%
2017/18	\$ 2,029	\$ 2,029	\$ -	\$ 7,377	27.5%

**MASTERY CHARTER HIGH SCHOOL  
SCHEDULES OF PROPORTIONATE SHARE OF  
PSERS NET OPEB LIABILITY AND CONTRIBUTIONS  
(UNAUDITED)**

Schedule of Proportionate Share of PSERS Net OPEB Liability  
PSERS Measurement Date (Unaudited)  
(in Thousands)

Fiscal Year	PSERS Net OPEB Liability		School's Covered Employee Payroll	School's Proportionate Share of Net OPEB Liability as a Percentage of Covered Employee Payroll	PSERS Fiduciary Net Position as a Percentage of Total OPEB Liability
	School's Proportion	School's Proportionate Share			
2017/18	0.05540%	\$ 1,129	\$ 7,377	15%	5.73%

PSERS OPEB Schedule of Contributions (Unaudited)  
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percent of Covered Employee Payroll
2017/18	\$ 53	\$ 53	\$ -	\$ 7,377	0.7%



**MASTERY CHARTER HIGH SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

Federal Grantor/ Pass-Through Grantor/ Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant/ Contract Period	Grant Amount	Accrued (Deferred) Revenue at July 1, 2017	Total Received for the Year	Federal Disbursements/ Expenditures	Accrued (Deferred) at June 30, 2018
<u>U.S. Department of Education:</u>									
Charter School Program Grant - Replication Project for High-Quality Turnaround Schools	D	84.282M	U28M150038	6/30/16-9/30/20	\$ 6,020,006	\$ 127,753	\$ 733,585	\$ 656,857	\$ 51,025
Teacher Incentive Fund Grant	D	84.374A	U374A160071	10/1/16-9/30/21	6,808,181	303,033	3,538,794	3,825,328	589,567
<u>Pass-Through Pennsylvania Department of Education:</u>									
Title I - Improving Basic Programs	I	84.010	013 181023	8/21/17 - 9/30/18	497,102	-	427,760	497,102	69,342
Title II - Improving Teacher Quality	I	84.367	020 181023	8/21/17 - 9/30/18	43,774	-	43,774	43,774	-
Title IV, Part A - Student Support and Academic Enrichment	I	84.424	144 181023	8/21/17 - 9/30/18	11,259	-	10,454	11,259	805
<u>Pass-Through School District of Philadelphia:</u>									
Individuals with Disabilities Act Part B	I	84.027	N/A	7/1/17 - 6/30/18	153,725	-	-	153,725	153,725
Total U.S. Department of Education						<u>430,786</u>	<u>4,754,367</u>	<u>5,188,045</u>	<u>864,464</u>
<u>U.S. Department of Agriculture</u>									
<u>Pass-Through Pennsylvania Department of Education:</u>									
<u>Child Nutrition Cluster:</u>									
Food and Nutrition Services - School Breakfast Program	I	10.553	N/A	7/1/16-6/30/17	636,720	130,360	130,360	-	-
Food and Nutrition Services - School Lunch Program	I	10.555	N/A	7/1/16-6/30/17	2,690,752	507,260	507,260	-	-
Food and Nutrition Services - School Breakfast Program	I	10.553	N/A	7/1/17-6/30/18	883,713	-	730,336	883,713	153,377
Food and Nutrition Services - School Lunch Program	I	10.555	N/A	7/1/17-6/30/18	3,166,844	-	2,628,777	3,166,844	538,067
Food and Nutrition Services - Fresh Fruit and Vegetable Program	I	10.582	N/A	7/1/17-6/30/18	31,152	-	27,463	31,152	3,689
Food and Nutrition Services - School Lunch Program - Donated Commodities	I	10.555	N/A	7/1/17-6/30/18	206,123	-	206,123	206,123	-
Total U.S. Department of Agriculture and Child Nutrition Cluster						<u>637,620</u>	<u>4,230,319</u>	<u>4,287,832</u>	<u>695,133</u>
<u>U.S. Department of Health and Human Services</u>									
<u>Pass-Through Pennsylvania Department of Public Welfare</u>									
Medical Assistance	I	93.778	044-007568	7/1/14 - 6/30/17	58,772	563	-	-	563
Total U.S. Department of Health and Human Services						<u>563</u>	<u>-</u>	<u>-</u>	<u>563</u>
Total Expenditures of Federal Awards						<u>\$ 1,068,969</u>	<u>\$ 8,984,686</u>	<u>\$ 9,475,877</u>	<u>\$ 1,560,160</u>

D - Direct Funding

I - Indirect Funding

Note: There were no awards passed through to subrecipients

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

**NOTE 1 GENERAL INFORMATION**

The accompanying schedule of expenditures of federal awards presents the activities of the federal financial assistance programs of Mastery Charter High School (the School). Financial awards received directly from federal agencies, as well as financial assistance passed through other governmental agencies or nonprofit organizations, are included in the schedule.

**NOTE 2 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

**NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS**

The schedule of expenditures of federal awards presents only a selected portion of the activities of the School. It is not intended to, nor does it, present either the balance sheet, revenue, expenditures, or changes in fund balances of governmental funds. The financial activity for the aforementioned awards is reported in the School's statement of activities and statement of revenue, expenditures, and changes in fund balance – governmental funds.

**NOTE 4 INDIRECT COST RATE**

Mastery Charter High School has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



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**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 High 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, the business-type activities, and each major fund of Mastery Charter High School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Mastery Charter High School's basic financial statements, and have issued our report thereon dated November 15, 2018.

**Internal Control Over Financial Reporting**

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

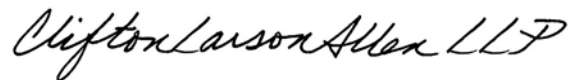
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Mastery Charter High 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 15, 2018



**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Mastery Charter High School  
Philadelphia, Pennsylvania

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

We have audited Mastery Charter High School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Mastery Charter High School's major federal program for the year ended June 30, 2018. Mastery Charter High School's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for Mastery Charter High School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mastery Charter High School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Mastery Charter High School's compliance.

***Opinion on the Major Federal Program***

In our opinion, Mastery Charter High School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

Management of Mastery Charter High School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mastery Charter High School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mastery Charter High School's internal control over compliance.

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

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

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



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 15, 2018

**MASTERY CHARTER HIGH SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

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***Section I – Summary of Auditors’ Results***

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***Financial Statements***

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? \_\_\_\_\_ yes        X   no
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes        X   none reported
3. Noncompliance material to financial statements noted? \_\_\_\_\_ yes        X   no

***Federal Awards***

1. Internal control over major federal programs:
- Material weakness(es) identified? \_\_\_\_\_ yes        X   no
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes        X   none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes        X   no

***Identification of Major Federal Programs***

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
84.374	U.S. Department of Education – Teacher Incentive Fund
Dollar threshold used to distinguish between Type A or Type B programs was:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	<u>  X  </u> yes      _____ no

**MASTERY CHARTER HIGH SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

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***Section II – Financial Statement Findings***

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

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

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Our audit did not disclose any matters required to be reported in accordance with the Federal Single Audit Act.

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***Section IV – Prior Audit Findings***

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





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