

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2018**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2017)**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Mastery Charter School – Gratz Campus  
Philadelphia, Pennsylvania

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

We have audited the accompanying financial statements of the governmental activities and the general fund of Mastery Charter School – Gratz Campus, 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 and the general fund of Mastery Charter School – Gratz Campus as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of a Matter**

As discussed in Note 13 to the financial statements, Mastery Charter School – Gratz Campus 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 School – Gratz Campus' net position was restated to reflect the impact of adoption. 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 37, the schedules of proportionate share of PSERS net pension liability and contributions on page 38, and the schedules of proportionate share of PSERS net OPEB liability and contributions on pages 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Report on Summarized Comparative Information*

We have previously audited Mastery Charter School – Gratz Campus' 2017 financial statements, and we expressed unmodified audit opinions on those audited financial statements of the governmental activities and general fund in our report dated November 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mastery Charter School – Gratz Campus’ 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. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018 on our consideration of Mastery Charter School – Gratz Campus’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Mastery Charter School – Gratz Campus’ internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mastery Charter School – Gratz Campus’ internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 15, 2018

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2018**

The management of Mastery Charter School – Gratz Campus (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 \$2,202,793 to \$25,382,906 primarily due to an increase in local education agency sources, state sources, federal sources, 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 (\$11,670,634). This net position balance represents an increase in net position of \$1,391,274, which includes the impact of restatement for the OPEB liability of (\$677,000), for the year ended June 30, 2018.
- At the close of the current fiscal year, the School reports an ending general fund balance of \$3,256,718. This general fund balance represents an increase in fund balance by \$2,118,275 for the year ended June 30, 2018.
- The School’s cash balance at June 30, 2018 was \$5,293,035, which was an increase of \$861,263.

**Overview of the Financial Statements**

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

***Government-Wide Financial Statements***

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

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

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

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

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS  
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 only one fund type, the governmental general fund.

***Notes to the Financial Statements***

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

**Government-Wide Financial Analysis**

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the School, liabilities and deferred inflows exceeded assets and deferred outflows by \$11,670,634 as of June 30, 2018.

	<u>2018</u>	<u>2017</u>
Current and Other Assets	\$ 6,229,392	\$ 4,790,933
Capital Assets	<u>1,106,473</u>	<u>1,101,695</u>
Total Assets	7,335,865	5,892,628
Deferred Outflows	2,188,375	2,651,488
Current Liabilities	3,073,372	3,711,421
Noncurrent Liabilities	<u>16,954,246</u>	<u>16,402,663</u>
Total Liabilities	20,027,618	20,114,084
Deferred Inflows	<u>1,167,256</u>	<u>1,491,940</u>
Net Investment in Capital Assets	816,529	943,905
Unrestricted	<u>(12,487,163)</u>	<u>(14,005,813)</u>
Total Net Position	<u>\$ (11,670,634)</u>	<u>\$ (13,061,908)</u>



**MASTERY CHARTER SCHOOL – GRATZ CAMPUS  
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 and awards from federal and state sources.

	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>		
Local Educational Agencies	\$ 20,777,878	\$ 19,007,042
State Sources	160,565	118,786
Federal Sources	3,398,491	3,372,943
Other Grants and Contributions	227,752	18,215
Other Local Sources	<u>818,220</u>	<u>663,127</u>
Total Revenues	25,382,906	23,180,113
 <b>EXPENDITURES</b>		
Instruction	8,220,866	8,880,696
Special Education	6,794,031	7,028,285
Student Support Services	2,636,304	3,256,485
Administration Support	3,046,264	2,914,803
Pupil Health	158,927	126,445
Business Support	162,700	131,268
Transportation	14,063	33,568
Operations and Maintenance	1,420,620	1,300,947
Other Support Services	93,532	96,459
Student Activities	417,466	384,784
Interest Expense	7,567	8,905
Depreciation Expense	<u>342,290</u>	<u>501,301</u>
Total Expenditures	<u>23,314,632</u>	<u>24,663,946</u>
 Change in Net Position	2,068,274	(1,483,833)
 Net Position - Beginning	(13,061,908)	(11,578,075)
Restatement for July 1, 2017, OPEB Liabilities	(677,000)	-
Net Position - Beginning, as Restated	<u>(13,738,908)</u>	<u>(11,578,075)</u>
 Net Position - Ending	<u>\$ (11,670,634)</u>	<u>\$ (13,061,908)</u>

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS  
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 \$3,256,718. For the year ended June 30, 2018, the School’s revenues and other financing sources of \$25,573,991 exceeded expenditures of \$23,455,716 by \$2,118,275.

**General Fund Budgetary Highlights**

Actual revenues were greater than budgeted revenue by \$508,082 due to more than budgeted local educational agencies, state sources, federal sources and other local sources offset by less than budgeted other grants and contributions. Actual expenditures were less than budgeted expenditures by \$397,114 due to less than budgeted instruction and support expenditures, offset by more than budgeted noninstructional expenditures and not budgeted capital lease expenditures.

**Capital Asset**

As of June 30, 2018, the School’s investment in capital assets for its governmental activities totaled \$816,529 (net of accumulated depreciation and related debt). This investment in capital assets includes leasehold improvements, furniture and fixtures and equipment.

Major capital asset purchases during the year included the following:

- Capital expenditures of \$55,075 for equipment
- Capital expenditures of \$40,350 for leasehold improvements
- Capital expenditures of \$43,833 for furniture
- Capital expenditures of \$16,725 for software
- Capital expenditures of \$191,085 for capital lease

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 long-term debt of \$289,944 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 SCHOOL – GRATZ CAMPUS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**  
(WITH COMPARATIVE TOTALS AT JUNE 30, 2017)

<b>ASSETS</b>	Governmental Activities	
	2018	2017
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 5,293,035	\$ 4,431,772
Federal Subsidies Receivable	755,813	86,160
Other Receivables	105,833	177,389
Prepaid Expenses	35,962	95,612
Due from Other Governmental Entities	38,749	-
Total Current Assets	6,229,392	4,790,933
<b>CAPITAL ASSETS, NET</b>	1,106,473	1,101,695
Total Assets	7,335,865	5,892,628
<b>DEFERRED OUTFLOWS</b>		
Deferred Outflows from Pensions - See Note 8	2,156,375	2,651,488
Deferred Outflows from OPEB - See Note 9	32,000	-
Total Deferred Outflows	2,188,375	2,651,488
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Capital Lease Obligation - Current Maturities	100,698	58,931
Accounts Payable	1,565,888	2,017,639
Accrued Expenses	1,406,786	1,631,216
Due to Other Governmental Entities	-	3,635
Total Current Liabilities	3,073,372	3,711,421
<b>LONG-TERM LIABILITIES</b>		
Capital Lease Obligation - Net of Current Portion	189,246	98,859
Net OPEB Liability	664,000	-
Net Pension Liability	16,101,000	16,303,804
Total Long-Term Liabilities	16,954,246	16,402,663
Total Liabilities	20,027,618	20,114,084
<b>DEFERRED INFLOWS</b>		
Deferred Inflows from Pensions - See Note 8	1,126,827	1,491,940
Deferred Inflows from OPEB - See Note 9	40,429	-
Total Deferred Inflows	1,167,256	1,491,940
<b>NET POSITION</b>		
Net Investment in Capital Assets	816,529	943,905
Unrestricted	(12,487,163)	(14,005,813)
Total Net Position	\$ (11,670,634)	\$ (13,061,908)

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

Functions	Expenses	Program Revenues Operating Grants and Contributions	2018	2017
			Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
			Total	Total
			Governmental Activities	Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 8,220,866	\$ 2,958,420	\$ (5,262,446)	\$ (5,917,191)
Special Education	6,794,031	440,071	(6,353,960)	(6,618,847)
Student Support Services	2,636,304	-	(2,636,304)	(3,256,485)
Administration Support	3,046,264	-	(3,046,264)	(2,914,803)
Pupil Health	158,927	-	(158,927)	(126,445)
Business Support	162,700	-	(162,700)	(131,268)
Transportation	14,063	-	(14,063)	(33,568)
Operations and Maintenance	1,420,620	-	(1,420,620)	(1,300,947)
Other Support Services	93,532	-	(93,532)	(96,459)
Student Activities	417,466	-	(417,466)	(384,784)
Interest Expense	7,567	-	(7,567)	(8,905)
Depreciation Expense	342,290	-	(342,290)	(501,301)
<b>Total</b>	<b><u>\$ 23,314,632</u></b>	<b><u>\$ 3,398,491</u></b>	<b>(19,916,141)</b>	<b>(21,291,003)</b>
<b>General Revenues:</b>				
Local Educational Agencies			20,777,878	19,007,042
State Grants and Reimbursements			160,565	118,786
Other Grants and Contributions			227,752	18,215
Other Local Sources			818,220	663,127
<b>Total General Revenues</b>			<b><u>21,984,415</u></b>	<b><u>19,807,170</u></b>
Change in Net Position			2,068,274	(1,483,833)
Net Position - Beginning			(13,061,908)	(11,578,075)
Restatement for July 1, 2017, OPEB Liabilities			(677,000)	-
Net Position - Beginning of Year, as Restated			(13,738,908)	(11,578,075)
Net Position - End of Year			<b><u>\$ (11,670,634)</u></b>	<b><u>\$ (13,061,908)</u></b>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**  
(WITH COMPARATIVE TOTALS AT JUNE 30, 2017)

	2018	2017
	General Fund	General Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 5,293,035	\$ 4,431,772
Federal Subsidies Receivable, Net of Allowance	755,813	86,160
Other Receivables	105,833	177,389
Prepaid Expenses	35,962	95,612
Due from Other Governmental Entities	38,749	-
	<u>\$ 6,229,392</u>	<u>\$ 4,790,933</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 1,565,888	\$ 2,017,639
Accrued Expenses	1,406,786	1,631,216
Due to Other Governmental Entities	-	3,635
Total Liabilities	<u>2,972,674</u>	<u>3,652,490</u>
<b>FUND BALANCE</b>		
Nonspendable:		
Prepaid Expenses	35,962	95,612
Committed to:		
Future Budget Deficits	2,700,000	900,000
Facilities Reserves	500,000	100,000
Unassigned	20,756	42,831
Total Fund Balance	<u>3,256,718</u>	<u>1,138,443</u>
Total Liabilities and Fund Balance	<u>\$ 6,229,392</u>	<u>\$ 4,790,933</u>

See accompanying Notes to Financial Statements.

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

**Total Fund Balance for Governmental Funds** \$ 3,256,718

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 1,106,473

Capital lease obligations used in governmental funds are not financial resources and, therefore, are not reported in the fund liabilities. The total capital lease obligations, both current and long-term, are reported in the statement of net assets.

Balances at year-end are: (289,944)

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 (15,071,452)  
OPEB (672,429)

**Total Net Position of Governmental Activities** \$ (11,670,634)

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2018**  
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
	General	General
	Fund	Fund
<b>REVENUES</b>		
Local Educational Agencies	\$ 20,777,878	\$ 19,007,042
State Sources	160,565	118,786
Federal Sources	3,398,491	3,372,943
Other Grants and Contributions	227,752	18,215
Other Local Sources	818,220	663,127
Total Revenues	25,382,906	23,180,113
<b>EXPENDITURES</b>		
Instruction	15,107,559	15,980,291
Support Services	7,738,846	8,072,467
Noninstructional Services	418,226	384,919
Capital Lease Expenditures	191,085	44,830
Total Expenditures	23,455,716	24,482,507
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	1,927,190	(1,302,394)
<b>OTHER FINANCING SOURCES AND USES</b>		
Proceeds from Capital Lease Obligation	191,085	44,830
<b>NET CHANGE IN FUND BALANCE</b>	2,118,275	(1,257,564)
Fund Balance - Beginning of Year	1,138,443	2,396,007
<b>FUND BALANCE - END OF YEAR</b>	\$ 3,256,718	\$ 1,138,443

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS  
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** \$ 2,118,275

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

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

Depreciation Expense	(342,290)
Capital Outlays	347,068

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

Capital Lease Obligations	(132,154)
---------------------------	-----------

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	72,804
Change in OPEB Expense	<u>4,571</u>

**Change in Net Position of Governmental Activities** \$ 2,068,274



**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Background**

Mastery Charter School – Gratz Campus (the School) was formed as a Pennsylvania nonprofit corporation to operate in accordance with Pennsylvania Act 22 of 1997. The initial charter was granted by The School District of Philadelphia on July 1, 2011. The School successfully completed the charter renewal process, which took place during the 2015-16 school year, and the charter agreement remains in force. During the year ended June 30, 2018, the School served approximately 1,425 students in grades 7 through 12.

**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.

**Comparative Financial Information**

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2017 from which the summarized information was derived.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's functions are offset by program revenues.

The fund financial statements (governmental fund balance sheet and statement of governmental fund revenues, expenditures, and changes in fund balance) report on the School's General Fund.

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

**Government-Wide Financial Statements**

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by provider have been met.

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

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 120 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The government reports the following major governmental fund:

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

**Method of Accounting**

Accounting standards requires a statement of net position and a statement of activities. It requires the classification of net position into three components — net investment in capital assets, restricted, and unrestricted. These calculations are defined as follows:

- Net investment in capital assets — This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted — This component of net position consists of constraints placed on net position use through external constraints imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The School presently has no restricted net position.
- Unrestricted net position — This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Method of Accounting (Continued)**

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaid expenses, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances represent amounts constrained for a specific purpose by a governmental entity using its highest level of decision-making authority. Committed fund balances are established and modified by a resolution approved by the board of trustees. Assigned fund balances are intended by the School to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balances are considered the remaining amounts.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance are available, it is currently the School's policy to use restricted first, then unrestricted fund balance. When expenditures are incurred for purposes for which committed, assigned, and unassigned amounts are available, it is currently the School's policy to use committed first, then assigned, and finally unassigned amounts.

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual budget is adopted for the General Fund.

The budgetary comparison schedule presents both the original and the final appropriated budgets for the reporting period. The School only has a general fund budget; an original budget was filed and accepted by the Labor, Education, and Community Services Comptroller's Office in June 2017. 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.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

As of July 1, 2011, the Mastery Charter Schools and the Network Support Team (the Schools) adopted the self-funded benefit payment plan (the Plan). The Mastery Charter High School is the Plan Sponsor for the Plan. The Plan covers eligible employees/members and dependents of the Schools (current and future schools) as defined in the agreement. The Schools are primarily self-insured, up to certain limits, for employee group health claims. The Plan contains stop-loss insurance, which will reimburse the Plan for amounts of paid claims in excess of \$150,000 on any individual covered by the Plan in the policy year ending June 30, 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.

The Plan liability at June 30, 2018 is \$1,235,000, and is included on the Mastery Charter High School's financial statements. Total expense under the program was approximately \$13,331,000, which includes Mastery Charter School – Gratz Campus' portion of \$1,283,924 for the year ended June 30, 2018.

**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, state, and local 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 insurance premiums.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Capital Assets**

Capital assets, which include property and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the assets except for leasehold improvements which are limited to the shorter of the life of the School's Charter or the estimated useful lives of the improvements. Software costs are depreciated over 36 months using the straight-line method.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows resources to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS 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).

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Pensions (Continued)**

Benefits Provided (Continued)

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.

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.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Pensions (Continued)**

Contributions (Continued)

Member Contributions (Continued):

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

Employer Contributions:

The employers contractually required contribution rate for fiscal year ended June 30, 2018 was 29.2% 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 \$1,178,000 for the year ended June 30, 2018.

**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.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Other Postemployment Benefits (Continued)**

***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.

**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 \$31,000 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.



**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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, \$4,913,632 of the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 4,913,632</u>
Total Custodial Credit Risk	<u><u>\$ 4,913,632</u></u>

Reconciliation to the financial statements:

Custodial Credit Risk from Above	\$ 4,913,632
Plus: Insured Amount	500,000
Less: Outstanding Checks	(122,597)
Plus: Petty Cash	2,000
Total Cash Per the Financial Statements	<u><u>\$ 5,293,035</u></u>

**NOTE 3 CAPITAL ASSETS**

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

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

Capital asset activity for the year is summarized below:

Description	Balance July 1, 2017	Deletions	Additions	Balance June 30, 2018
Equipment	\$ 864,714	\$ -	\$ 55,075	\$ 919,789
Furniture	832,682	-	43,833	876,515
Leasehold Improvements	1,888,215	-	40,350	1,928,565
Software	45,065	-	16,725	61,790
Capital Lease Equipment	289,205	-	191,085	480,290
Total	<u>3,919,881</u>	-	<u>347,068</u>	<u>4,266,949</u>
Less: Accumulated				
Depreciation	2,818,186	-	342,290	3,160,476
Capital Assets, Net	<u><u>\$ 1,101,695</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,778</u></u>	<u><u>\$ 1,106,473</u></u>

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4 CAPITAL LEASE OBLIGATIONS**

The School leases several copiers under capital leases that expire at various times through June 2023. As of June 30, 2018, the leased copiers are reflected at a cost of \$480,290 and related accumulated depreciation of \$214,906. The leases require monthly payments of principal and interest between \$924 and \$3,800, at an interest rate of 4.79% per annum.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 100,698
2020	66,846
2021	56,688
2021	52,068
2022	45,600
Total	<u>321,900</u>
Less: Amount Representing Interest	31,956
Present Value of Minimum Lease Payments	<u><u>\$ 289,944</u></u>

The following is a summary of changes in 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>\$ 157,790</u>	<u>\$ 191,085</u>	<u>\$ 58,931</u>	<u>\$ 289,944</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 \$20,777,878 for the year ended June 30, 2018.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 6 GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAMS**

The School participates in numerous state and federal grant and reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and reimbursement programs for social security taxes, retirement expense, facility lease expense, and health services are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants and reimbursement programs, refunds of any money received may be required and the collectability of any related receivable at June 30, 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 contributions to the Plan for the years ended June 30, 2018 and 2017 were \$358,057 and \$324,595, 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 service. Nonvested contributions are forfeited upon termination of employment and such forfeitures are used to pay a portion of the Plan's administrative expenses.

The School had no liability to the Plan at June 30, 2018.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

At June 30, 2018, the School reported a liability of \$16,101,000 for its proportionate share of net pension liability for the PSERS Plan. The net pension liability 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 employer’s proportion of the net pension liability was calculated utilizing the employer’s one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the employer’s proportion was .0326%, which was a decrease of .0003% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the employer recognized pension expense of \$1,091,060. At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 168,000	\$ (97,000)
Net Difference Between Projected and Actual Investment Earnings	373,375	-
Changes in Assumptions	437,000	-
Changes in Proportions	-	(910,009)
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	(119,818)
Contributions Subsequent to the Measurement Date	1,178,000	-
Total	<u>\$ 2,156,375</u>	<u>\$ (1,126,827)</u>

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

The amount of \$1,178,000 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>Amount</u>
2019	\$ (352,626)
2020	186,023
2021	119,875
2022	(101,724)
Total	<u>\$ (148,452)</u>

**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.

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.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 8 PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (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	100 %	

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 SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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	\$ 19,818	\$ 16,101	\$ 12,962

**Pension Plan Fiduciary Net Position**

Detailed information about PSERS’ fiduciary net position is available in PSERS Comprehensive Annual Financial Report which can be found on the System’s website at [www.psers.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 \$664,000 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 .0326%, which was a decrease of .0003% from its proportion measured as of June 30, 2016.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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 (\$4,571). At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ -	\$ (31,000)
Net Difference Between Projected and Actual Investment Earnings	1,000	-
Changes in Proportions	-	(6,000)
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	(3,429)
Contributions Subsequent to the Measurement Date	31,000	-
Total	<u>\$ 32,000</u>	<u>\$ (40,429)</u>

\$31,000 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>Amount</u>
2019	\$ (6,488)
2020	(6,488)
2021	(6,488)
2022	(6,488)
2023	(6,738)
2024	(6,739)
Total	<u>\$ (39,429)</u>



**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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.

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.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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 %
	100 %	

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.

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.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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 (Continued)

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%)
\$ 664	\$ 664	\$ 664

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%
\$ 755	\$ 664	\$ 589

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. Settled claims resulting from these risks have not exceeded commercial insurance coverage for the last three years.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 11 MANAGEMENT AGREEMENT**

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

As of July 1, 2017, the School entered into a one-year agreement with the Mastery Charter High School to provide educational, administrative, and financial services for the School by the NST. As a result of common usage of the NST, the Mastery Charter Schools are considered related parties (see Note 12). The NST management fee is 8.5% of local school funds plus reimbursement for any costs NST incurs in providing the educational, administrative, and financial services. Unless specified notice is given, the agreement renews each year during the term of the School's charter. The total fee was \$1,766,120 for the fiscal year.

As of July 1, 2017, the School entered into a one-year technology and equipment agreement with Mastery Charter High School. The fee is \$141,770 for the fiscal year. These agreements renew annually.

**NOTE 12 RELATED PARTY TRANSACTIONS**

Mastery Charter High School, Mastery Charter School – Shoemaker Campus, Mastery Charter School – Thomas Campus, Mastery Charter School – Pickett Campus, Mastery Charter School – Harrity Elementary, Mastery Charter School – Mann Elementary, Mastery Charter School – Smedley Elementary, Hardy Williams Charter School, Grover Cleveland Mastery Charter School, Mastery Charter School – Clymer Elementary, Francis D. Pastorius Mastery 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 and the management of the schools.

The following represents amounts due from and to related parties as of June 30, 2018:

	Due from (Receivable)	Due to (Payable)
Due to/from Other Governmental Entities (all Schools)	\$ 38,749	\$ -

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 13 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, 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.

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

	<u>Governmental Activities</u>
Net Position, Beginning of Year, as Previously Stated	\$ (13,061,908)
Balance of the Net OPEB Liability and Related Deferred Outflows of Resources	<u>(677,000)</u>
Net Position, Beginning of Year, as Restated	<u><u>\$ (13,738,908)</u></u>

**NOTE 14 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.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 14 RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

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.

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.

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 14 RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

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 SCHOOL – GRATZ CAMPUS**  
**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	\$ 19,704,381	\$ 20,507,000	\$ 20,777,878	\$ 270,878
State Sources	13,815	113,565	160,565	47,000
Federal Sources	1,597,590	1,969,259	3,398,491	1,429,232
Other Grants and Contributions	1,700,000	1,750,000	227,752	(1,522,248)
Other Local Sources	42,000	535,000	818,220	283,220
Total Revenues	<u>23,057,786</u>	<u>24,874,824</u>	<u>25,382,906</u>	<u>508,082</u>
<b>EXPENDITURES</b>				
Instruction	14,932,736	15,640,000	15,107,559	(532,441)
Support Services	7,833,330	7,902,830	7,738,846	(163,984)
Noninstructional Services	291,720	310,000	418,226	108,226
Capital Lease Expenditures	-	-	191,085	191,085
Total Expenditures	<u>23,057,786</u>	<u>23,852,830</u>	<u>23,455,716</u>	<u>(397,114)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	-	1,021,994	1,927,190	905,196
<b>OTHER FINANCING SOURCES AND USES</b>				
Proceeds from Capital Lease Obligations	-	-	191,085	191,085
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ 1,021,994</u>	2,118,275	<u>\$ 1,096,281</u>
Fund Balance - Beginning of Year			<u>1,138,443</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 3,256,718</u>	



**MASTERY CHARTER SCHOOL – GRATZ CAMPUS  
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	School's Proportionate Share of NPL as a Percent of Covered Employee Payroll	PSERS Fiduciary Net Position as a Percent of Total Pension Liability
	School's Proportion	School's Proportion Share			
2014/15	0.03460%	\$ 13,695	\$ 4,413	310%	57.2%
2015/16	0.03420%	\$ 14,814	\$ 4,401	337%	54.4%
2016/17	0.03290%	\$ 16,304	\$ 4,266	382%	50.1%
2017/18	0.03260%	\$ 16,101	\$ 4,334	372%	51.8%

PSERS Schedule of Contributions (Unaudited)  
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percent of Covered Employee Payroll
2014/15	\$ 839	\$ 839	\$ -	\$ 4,413	19.0%
2015/16	\$ 1,011	\$ 1,011	\$ -	\$ 4,401	23.0%
2016/17	\$ 1,152	\$ 1,152	\$ -	\$ 4,266	27.0%
2017/18	\$ 1,178	\$ 1,178	\$ -	\$ 4,334	27.2%

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS  
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	0.0326%	\$ 664	\$ 4,334	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	\$ 31	\$ 31	\$ -	\$ 4,334	0.8%

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS  
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 Period Beginning/ Ending Date	Grant Amount	Accrued (Deferred) Revenue at July 1, 2017	Total Received for the Year	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2018
<u>U.S. Department of Education</u>									
Pass-Through Pennsylvania Department of Education:									
Title I - Improving Basic Programs	I	84.010	013-181112	8/18/17-9/30/18	\$ 1,299,362	\$ -	\$ 1,021,629	\$ 1,299,362	\$ 277,733
Title I - School Improvement Grant Program Set Aside	I	84.010	042-171112	6/8/17-9/30/18	85,000	-	74,375	85,000	10,625
Title I - School Improvement Grant 1003g	I	84.377	142-161112	7/9/16 - 9/30/17	1,356,835	(17,958)	271,367	289,325	-
Title I - School Improvement Grant 1003g	I	84.377	142-171112	9/1/17-9/30/18	1,699,498	-	1,438,037	1,141,145	(296,892)
Title II - Improving Teacher Quality	I	84.367	020-181112	8/18/17-9/30/18	114,403	-	89,665	114,403	24,738
Title IV - Student Support and Academic Enrichment	I	84.424	144-181112	8/18/17-9/30/18	29,185	-	27,100	29,185	2,085
Pass-through School District Philadelphia:									
Individuals with Disabilities Act part B	I	84.027	N/A	7/1/17-6/30/18	440,074	-	-	440,074	440,074
Total U.S. Department of Education						<u>(17,958)</u>	<u>2,922,173</u>	<u>3,398,494</u>	<u>458,363</u>
<u>U.S. Department of Health and Human Services</u>									
Pass-Through Pennsylvania Department of Public Welfare:									
Medical Assistance	I	93.778	044 007679	7/1/14 - 6/30/17	-	86,158	85,600	-	558
Total U.S. Department of Health and Human Services						<u>86,158</u>	<u>85,600</u>	<u>-</u>	<u>558</u>
Total Expenditures of Federal Awards						<u>\$ 68,200</u>	<u>\$ 3,007,773</u>	<u>\$ 3,398,494</u>	<u>\$ 458,921</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 SCHOOL – GRATZ CAMPUS**  
**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 School – Gratz Campus (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 School — Gratz Campus has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees  
Mastery Charter School – Gratz Campus  
Philadelphia, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of Mastery Charter School – Gratz Campus, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Mastery Charter School – Gratz Campus' 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 School – Gratz Campus' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mastery Charter School – Gratz Campus' internal control. Accordingly, we do not express an opinion on the effectiveness of Mastery Charter School – Gratz Campus' internal control.

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


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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mastery Charter School – Gratz Campus' 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  
THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Mastery Charter School – Gratz Campus  
Philadelphia, Pennsylvania

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

We have audited Mastery Charter School – Gratz Campus' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Mastery Charter School – Gratz Campus' major federal program for the year ended June 30, 2018. Mastery Charter School – Gratz Campus' 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 School – Gratz Campus' 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 School – Gratz Campus' 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 School – Gratz Campus' compliance.

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

In our opinion, Mastery Charter School – Gratz Campus 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.

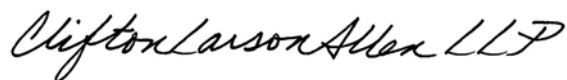
**Report on Internal Control Over Compliance**

Management of Mastery Charter School – Gratz Campus is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we Mastery Charter School – Gratz Campus’ internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 School – Gratz Campus’ 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 15, 2018



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

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

***Financial Statements***

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

***Federal Awards***

- |   |            |                       |
|---|------------|-----------------------|
| 1. Internal control over major federal programs:  |            |                       |
| • Material weakness(es) identified?   | _____ yes  | ___X___ no            |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)?         | _____ yes  | ___X___ none reported |
| 2. Type of 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***

**CFDA Number(s)**

84.010

**Name of Federal Program or Cluster**

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

Dollar threshold used to distinguish between Type A or Type B programs was:

\$ 750,000

Auditee qualified as low-risk auditee

\_\_\_X\_\_\_ yes      \_\_\_\_\_ no

**MASTERY CHARTER SCHOOL – GRATZ CAMPUS  
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 2 CFR 200.516(a).

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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.