

**MASTERY CHARTER HIGH SCHOOL**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2019**



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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Mastery Charter High School  
Philadelphia, Pennsylvania

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Mastery Charter High School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of Mastery Charter High School as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7, the schedule of revenues, expenditures, and changes in fund balance – budget and actual on page 42, the schedules of proportionate share of PSERS net pension liability and contributions on page 43, and the schedules of proportionate share of net OPEB liability and contributions on pages 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

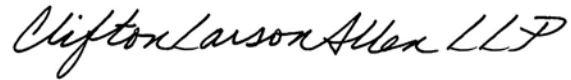
#### *Other Information*

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

Board of Trustees  
Mastery Charter High School

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019 on our consideration of Mastery Charter High School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Mastery Charter High School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mastery Charter High School's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 21, 2019

**MASTERY CHARTER HIGH SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2019**

The management of Mastery Charter High School (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

**Financial Highlights**

Total revenues increased by \$6,284,264 to \$45,204,740 primarily due to increase in local educational agency sources, federal sources, state sources, and management and technology fees offset by decreases in the other grants and contributions and other local sources for the year ended June 30, 2019.

At the close of the current fiscal year, the School reports ending net position of (\$11,178,399). This net position balance represents an increase in net position of \$5,562,727.

At the close of the current fiscal year, the School reports an ending general fund balance of \$570,294.

The School's cash and investment balance at June 30, 2019 was \$8,150,488, representing an increase of \$2,935,284 from June 30, 2018.

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements**

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

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

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

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

**MASTERY CHARTER HIGH SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2019**

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

***Fund Financial Statements***

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

***Notes to the Financial Statements***

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

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows exceeded assets and deferred outflows by \$11,178,399 as of June 30, 2019.

	2019			2018
	Governmental Activities	Business-Type Activities	Total	
Current and Other Assets	\$ 2,125,935	\$ 9,583,981	\$ 11,709,916	\$ 9,544,139
Capital Assets	6,186,460	3,948,367	10,134,827	9,890,535
Total Assets	<u>8,312,395</u>	<u>13,532,348</u>	<u>21,844,743</u>	<u>19,434,674</u>
Deferred Outflows	679,938	2,039,813	2,719,751	3,745,313
Current Liabilities	1,574,825	3,522,164	5,096,989	6,486,805
Noncurrent Liabilities	5,899,265	18,630,656	24,529,921	28,553,382
Total Liabilities	<u>7,474,090</u>	<u>22,152,820</u>	<u>29,626,910</u>	<u>35,040,187</u>
Deferred Inflows	<u>1,528,996</u>	<u>4,586,987</u>	<u>6,115,983</u>	<u>4,880,926</u>
Net Investment in Capital Assets	6,141,011	3,930,434	10,071,445	9,803,667
Unrestricted	(6,151,764)	(15,098,080)	(21,249,844)	(26,544,793)
Total Net Position	<u>\$ (10,753)</u>	<u>\$ (11,167,646)</u>	<u>\$ (11,178,399)</u>	<u>\$ (16,741,126)</u>



**MASTERY CHARTER HIGH SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2019**

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

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

	2019			2018
	Governmental Activities	Business-Type Activities	Total	
<b>REVENUES</b>				
Local Educational Agencies	\$ 8,392,868	\$ 288,800	\$ 8,681,668	\$ 8,169,106
State Sources	66,660	197,781	264,441	219,773
Federal Sources	728,886	11,811,158	12,540,044	9,472,187
Management and Technology Fees	-	21,783,853	21,783,853	17,701,017
Other Grants and Contributions	5,500	860,543	866,043	2,079,527
Other Local Sources	104,098	935,010	1,039,108	1,274,194
Interest	18,269	11,314	29,583	4,672
Total Revenues	<u>9,316,281</u>	<u>35,888,459</u>	<u>45,204,740</u>	<u>38,920,476</u>
<b>EXPENDITURES</b>				
Instruction	3,347,607	-	3,347,607	3,204,066
Special Education	2,093,414	-	2,093,414	2,466,277
Student Support Services	733,982	-	733,982	813,488
Instruction Support Services	10,984	-	10,984	3,749
Administration Support	1,147,213	-	1,147,213	1,064,109
Pupil Health	34,995	-	34,995	64,989
Business Services	65,007	-	65,007	61,943
Operations and Maintenance	351,263	-	351,263	400,443
Other Support Services	61,512	-	61,512	60,769
Food Services	-	-	-	-
Student Activities	109,172	-	109,172	124,356
Depreciation Expense	424,967	-	424,967	445,913
Interest Expense	4,468	-	4,468	6,319
Network Services Team Activities	-	31,257,429	31,257,429	26,922,328
Total Expenditures	<u>8,384,584</u>	<u>31,257,429</u>	<u>39,642,013</u>	<u>35,638,749</u>
Change in Net Position	931,697	4,631,030	5,562,727	3,281,727
Net Position - Beginning	<u>(942,450)</u>	<u>(15,798,676)</u>	<u>(16,741,126)</u>	<u>(20,022,853)</u>
Net Position - Ending	<u>\$ (10,753)</u>	<u>\$ (11,167,646)</u>	<u>\$ (11,178,399)</u>	<u>\$ (16,741,126)</u>

**MASTERY CHARTER HIGH SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2019**

**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 \$570,294. For the year ended June 30, 2019, the School's expenditures \$9,322,623 exceeded revenues \$9,316,281 by \$6,342.

**General Fund Budgetary Highlights**

Budgeted revenues exceeded actual revenues by \$149,719 primarily due to less than expected local educational agency sources, federal sources and other grants and contributions, offset by more than expected state sources and other local sources. Actual expenditures exceeded budgeted expenditures by \$56,623 primarily due to more than budgeted instruction and support services.

**Capital Asset and Debt Administration**

***CAPITAL ASSETS***

As of June 30, 2019, the School's investment in capital assets for its governmental and business-type activities totaled \$10,071,445 (net of accumulated depreciation and related debt). This investment in capital assets includes building, building improvements, and equipment.

Major capital asset purchases during the year included the following:

- Capital expenditures of \$27,770 for building improvements
- Capital expenditures of \$1,628,991 for furniture and equipment

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

***LONG-TERM DEBT***

As of June 30, 2019, the School has \$63,382 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 \$9,152 to \$10,157 per regular education student and decrease from \$29,468 to \$28,980 per special education student.

**Contacting the School's Financial Management**

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report should be addressed to the Chief Financial Officer, Mastery Charter School – Pickett Campus, 5700 Wayne Avenue, Philadelphia, PA 19144.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF NET POSITION  
JUNE 30, 2019**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Investments	\$ 1,883,976	\$ 6,266,512	\$ 8,150,488
Federal Subsidies Receivable	176,080	1,256,423	1,432,503
Other Receivables	53,041	849,944	902,985
Due from Other Governmental Entities	4,011	30,928	34,939
Due from MCS Foundation	-	35,549	35,549
Prepaid Expenses	8,827	144,625	153,452
Total Current Assets	2,125,935	8,583,981	10,709,916
<b>CAPITAL ASSETS, NET</b>	6,186,460	3,948,367	10,134,827
<b>NOTE RECEIVABLE</b>	-	1,000,000	1,000,000
Total Assets	8,312,395	13,532,348	21,844,743
<b>DEFERRED OUTFLOWS</b>			
Deferred Outflows from Pensions - See Note 8	662,000	1,986,000	2,648,000
Deferred Outflows from OPEB - See Note 9	17,938	53,813	71,751
Total Deferred Outflows	679,938	2,039,813	2,719,751
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Capital Lease Obligation - Current Portion	19,184	6,277	25,461
Accounts Payable	471,462	1,043,133	1,514,595
Accrued Expenses and Deposits	1,084,179	2,330,626	3,414,805
Due to Other Governmental Entities	-	3,758	3,758
Unearned Revenue	-	138,370	138,370
Total Current Liabilities	1,574,825	3,522,164	5,096,989
<b>LONG-TERM LIABILITIES</b>			
Capital Lease Obligation - Net of Current Portion	26,265	11,656	37,921
Loan Payable to MCS Foundation	-	1,000,000	1,000,000
Net OPEB Liability	244,500	733,500	978,000
Net Pension Liability	5,628,500	16,885,500	22,514,000
Total Long-Term Liabilities	5,899,265	18,630,656	24,529,921
Total Liabilities	7,474,090	22,152,820	29,626,910
<b>DEFERRED INFLOWS</b>			
Deferred Inflows from Pensions - See Note 8	1,459,960	4,379,881	5,839,841
Deferred Inflows from OPEB - See Note 9	69,036	207,106	276,142
Total Deferred Inflows	1,528,996	4,586,987	6,115,983
<b>NET POSITION</b>			
Net Investment in Capital Assets	6,141,011	3,930,434	10,071,445
Unrestricted	(6,151,764)	(15,098,080)	(21,249,844)
Total Net Position	\$ (10,753)	\$ (11,167,646)	\$ (11,178,399)

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

Functions	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>						
Instruction	\$ 3,347,607	\$ -	\$ 590,476	\$ (2,757,131)	\$ -	\$ (2,757,131)
Special Education	2,093,414	-	138,410	(1,955,004)	-	(1,955,004)
Student Support Services	733,982	-	-	(733,982)	-	(733,982)
Instruction Support Services	10,984	-	-	(10,984)	-	(10,984)
Administration Support	1,147,213	-	-	(1,147,213)	-	(1,147,213)
Pupil Health	34,995	-	-	(34,995)	-	(34,995)
Business Services	65,007	-	-	(65,007)	-	(65,007)
Operations and Maintenance	351,263	-	-	(351,263)	-	(351,263)
Other Support Services	61,512	-	-	(61,512)	-	(61,512)
Student Activities	109,172	-	-	(109,172)	-	(109,172)
Depreciation	424,967	-	-	(424,967)	-	(424,967)
Interest Expense	4,468	-	-	(4,468)	-	(4,468)
Total Governmental Activities	<u>8,384,584</u>	<u>-</u>	<u>728,886</u>	<u>(7,655,698)</u>	<u>-</u>	<u>(7,655,698)</u>
<b>Business-Type Activities:</b>						
Network Services Team Activities	31,257,429	21,783,853	11,811,158	-	2,337,582	2,337,582
Total Primary Government	<u>\$ 39,642,013</u>	<u>\$ 21,783,853</u>	<u>\$ 12,540,044</u>	<u>(7,655,698)</u>	<u>2,337,582</u>	<u>(5,318,116)</u>
<b>General Revenues:</b>						
Local Educational Agencies				8,392,868	288,800	8,681,668
State Grants and Reimbursements				66,660	197,781	264,441
Other Grants and Contributions				5,500	860,543	866,043
Other Local Sources				104,098	935,010	1,039,108
Interest				18,269	11,314	29,583
Total General Revenues				<u>8,587,395</u>	<u>2,293,448</u>	<u>10,880,843</u>
Change in Net Position				931,697	4,631,030	5,562,727
Net Position - Beginning of Year				<u>(942,450)</u>	<u>(15,798,676)</u>	<u>(16,741,126)</u>
Net Position - End of Year				<u>\$ (10,753)</u>	<u>\$ (11,167,646)</u>	<u>\$ (11,178,399)</u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2019**

	<u>2019 General Fund</u>
<b>ASSETS</b>	
Cash and Investments	\$ 1,883,976
Federal Subsidies Receivable	176,080
Other Receivables	53,041
Due from Other Governmental Entities	4,011
Prepaid Expenses	<u>8,827</u>
Total Assets	<u><u>\$ 2,125,935</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 471,462
Accrued Expenses and Deposits	1,084,179
Total Liabilities	<u>1,555,641</u>
<b>FUND BALANCE</b>	
Nonspendable:	
Prepaid Expenses	8,827
Committed to:	
Future Budget Deficits	<u>561,467</u>
Total Fund Balance	<u>570,294</u>
Total Liabilities and Fund Balance	<u><u>\$ 2,125,935</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019**

<b>Total Fund Balance for Governmental Funds</b>	\$	570,294
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Capital Assets, Net		6,186,460
Capital lease obligations used in governmental funds are not financial resources and, therefore, are not reported in the fund liabilities. The total capital lease obligations, both current and long-term, are reported in the statement of net position.		
Balances at year-end are:		(45,449)
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		(6,426,460)
OPEB		<u>(295,598)</u>
<b>Total Net Position of Governmental Activities</b>	<b>\$</b>	<b><u><u>(10,753)</u></u></b>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2019**

	<u>General Fund</u>
<b>REVENUES</b>	
Local Educational Agencies	\$ 8,392,868
State Sources	66,660
Federal Sources	728,886
Other Grants and Contributions	5,500
Other Local Sources	104,098
Interest	18,269
Total Revenues	<u>9,316,281</u>
 <b>EXPENDITURES</b>	
Instruction	6,166,124
Support Services	3,051,133
Noninstructional Services	105,366
Total Expenditures	<u>9,322,623</u>
 <b>NET CHANGE IN FUND BALANCE</b>	 (6,342)
 Fund Balance - Beginning of Year	 <u>576,636</u>
 <b>FUND BALANCE - END OF YEAR</b>	 <u><u>\$ 570,294</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

**Net Change in Fund Balance - Total Governmental Funds** \$ (6,342)

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

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

Depreciation Expense	(424,967)
Capital Outlays	68,453

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	1,241,011
Change in OPEB Expense	35,846

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

Capital Lease Obligations	17,696
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**Change in Net Position of Governmental Activities** \$ 931,697



**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2019**

<b>ASSETS</b>	<u>Network Support Team Activities Fund</u>
<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	\$ 6,266,512
Federal Subsidies Receivable	1,256,423
Other Receivables	849,944
Due from Other Governmental Entities	30,928
Due from Foundation	35,549
Prepaid Expenses	144,625
Total Current Assets	<u>8,583,981</u>
<b>NONCURRENT ASSETS</b>	
Capital Assets, Net	3,948,367
Note Receivable	1,000,000
Total Noncurrent Assets	<u>4,948,367</u>
Total Assets	13,532,348
<b>DEFERRED OUTFLOWS</b>	
Deferred Outflows from Pensions - See Note 8	1,986,000
Deferred Outflows from OPEB - See Note 9	53,813
Total Deferred Outflows	<u>2,039,813</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Capital Leases Payable - Due Within One Year	6,277
Accounts Payable	1,043,133
Accrued Expenses	2,330,626
Due to Other Governmental Entities	3,758
Unearned Revenue	138,370
Total Liabilities	<u>3,522,164</u>
<b>NONCURRENT LIABILITIES</b>	
Capital Leases Payable - Due in More Than One Year	11,656
Loan Payable to MCS Foundation	1,000,000
OPEB Liability	733,500
Net Pension Liability	16,885,500
Total Noncurrent Liabilities	<u>18,630,656</u>
Total Liabilities	22,152,820
<b>DEFERRED INFLOWS</b>	
Deferred Inflows from Pensions - See Note 8	4,379,881
Deferred Inflows from OPEB - See Note 9	207,106
Total Deferred Inflows	<u>4,586,987</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	3,930,434
Unassigned	(15,098,080)
Total Net Position	<u><u>\$ (11,167,646)</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2019**

	<u>Network Support Team Activities Fund</u>
<b>OPERATING REVENUES</b>	
Local Educational Agencies - Exchange	\$ 288,800
State Sources	197,781
Federal Sources	11,811,158
Management and Technology Fees	21,783,853
Other Grants and Contributions	860,543
Other Local Sources	935,010
Total Operating Revenues	<u>35,877,145</u>
<b>OPERATING EXPENDITURES</b>	
Instruction	3,741,952
Support Services	19,898,135
Noninstructional Services	2,477,094
Food Services	5,050,279
Student Activities	89,969
Total Operating Expenditures	<u>31,257,429</u>
<b>OPERATING INCOME</b>	4,619,716
<b>NONOPERATING REVENUE (EXPENSE)</b>	
Interest	<u>11,314</u>
<b>CHANGE IN NET POSITION</b>	4,631,030
Net Position - Beginning of Year	<u>(15,798,676)</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ (11,167,646)</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2019**

	<u>Network Support Team Activities Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Local Educational Sources	\$ 1,223,810
State Sources	197,781
Federal Sources	11,915,972
Management and Technology Fees	21,783,853
Other Grants and Contributions	1,428,522
Payments to Suppliers and Vendors	(12,563,003)
Payments to Employees	(19,958,699)
Net Cash Provided by Operating Activities	<u>4,028,236</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from MCS Foundation	1,000,000
Loan advanced to Mastery Prep Elementary Charter School	(1,000,000)
Net Cash Provided by Noncapital and Related Financing Activities	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of Capital Assets	(1,588,308)
Repayment of Capital Lease	(5,790)
Net Cash Used by Capital and Related Financing Activities	<u>(1,594,098)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest	11,314
Net Cash Provided by Investing Activities	<u>11,314</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,445,452
Cash and Cash Equivalents - Beginning of Year	<u>3,821,060</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 6,266,512</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2019**

	<u>Network Support Team Activities Fund</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income	\$ 4,619,716
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	987,502
Effect of Changes in Operating Assets and Liabilities:	
Decrease in Federal Subsidies Receivable	104,814
Increase in Other Receivables	(128,054)
Increase in Due from Other Governmental Entities	(10,638)
Decrease in Due from Foundation	1,469,179
Decrease in Prepaid Expense	163,526
Decrease in Deposits	13,050
Decrease in Accounts Payable	(466,370)
Decrease in Accrued Expense	(501,457)
Decrease in Due to Other Governments	(9,367)
Decrease in Unearned Revenue	(753,141)
Decrease in Net Pension Liability	(3,088,030)
Decrease in Net OPEB Liability	(90,670)
Decrease in Deferred Outflows of Resources Related to Pensions	708,743
Decrease in Deferred Outflows of Resources Related to OPEB	(14,393)
Increase in Deferred Inflows of Resources Related to Pensions	928,827
Increase in Deferred Inflows of Resources Related to OPEB	94,999
Total Adjustments	<u>(591,480)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 4,028,236</u></u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Background**

Mastery Charter High School (School), formerly known as High Tech High Philadelphia Charter School and located at the Lenfest Campus, was formed as a Pennsylvania nonprofit corporation in November 2000. The School was granted a charter by the Commonwealth of Pennsylvania to operate an independent public school for an initial five-year term beginning September 1, 2001, in accordance with Pennsylvania Act 22 of 1997. The charter was renewed in June 2015 for an additional five-year term of July 1, 2015 through June 30, 2020. During the year ended June 30, 2019, the school served approximately 577 students in grades 7 through 12.

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

**Basis of Presentation**

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing government accounting and financial reporting principles. The GASB has issued a codification of governmental accounting and financial reporting standards.

**Government-Wide and Fund Financial Statements**

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

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

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

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

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

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

Fund Financial Statements

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

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

The government reports the following major governmental fund:

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

The government reports the following major enterprise fund:

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

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**Method of Accounting**

Accounting standards requires a statement of net position and a statement of activities. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted.

These calculations are defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

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

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

**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.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**Budgets and Budgetary Accounting (Continued)**

The Budgetary Comparison Schedule presents both the original and the final appropriated budgets for the reporting period. The School only has a general fund budget; an original budget was filed and accepted in 2018 by the Labor, Education, and Community Services Comptroller's Office. An amended budget was approved by the board of trustees in January 2019. The budget is required supplementary information.

For the year ended June 30, 2019, expenditures exceeded budget by \$56,623 in the general fund. These expenditures were funded by reserves of the School and the fund still ended in a positive fund balance.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Concentration of Credit Risk**

Periodically, the School may maintain deposits in excess of the Federal Deposit Insurance Corporation's (FDIC) limit of \$250,000, with financial institutions. At times, cash in bank may exceed FDIC insurable limits.

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

The School participates in a self-funded benefit payment plan (the Plan). The Mastery Charter High School is the sponsor of the Plan. The Plan covers eligible employees/members and dependents of the School as defined in the agreement. The School is 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 \$175,000 on any individual covered by the Plan in the policy year ending June 30, 2019. The stop-loss insurance also provides up to \$1,000,000 of coverage beyond the aggregate annual claims limit of \$16,139,964 for the fiscal year ended June 30, 2019. The annual claims limit is based on the average enrollment of 1,333 covered employees, but is ultimately derived based on the actual covered employees times a monthly claims factor of \$1,009, for each month of the policy period.

During the year ended June 30, 2019, each School paid premiums to Mastery Charter High School based on 1) the Plan's historical claims experience, 2) actual claims for the year ended June 30 2019, and 3) the estimated claims incurred but not reported. Such estimates were provided by the School's benefits consultant.

The expense under the program was approximately \$16,774,899, which includes the School's portion of \$2,512,507 for the year ended June 30, 2019.



**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

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

Changes in the balance of claims liabilities for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Balance - July 1	\$ 1,235,000	\$ 1,295,723
Claims Incurred	15,921,000	12,353,000
Claims Paid	(15,832,000)	(12,413,723)
Balance - June 30	\$ 1,324,000	\$ 1,235,000

**Cash and Cash Equivalents**

The School's cash is considered to be cash on hand and amounts held at financial institutions.

**Investments**

Negotiable certificates of deposit are reported at fair value.

**Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value in three levels based on the extent to which inputs used in measuring fair value are observable in the market:

*Level 1* – unadjusted price quotations in active markets/exchanges for identical assets or liabilities.

*Level 2* – other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs).

*Level 3* – unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for assets or liabilities categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**Accounts Receivable**

Accounts receivable primarily consist of amounts due from the Pennsylvania Department of Education for federal and state subsidy programs. Accounts receivable are stated at the amount management expects to collect from outstanding balances. As of June 30, 2019, no allowance for doubtful accounts was deemed warranted based on historical experience.

**Prepaid Expenses**

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

**Capital Assets**

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

**Pensions and Other Postemployment Benefits**

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

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

**Plan Description**

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

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

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

Benefits Provided

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

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

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

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.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

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

Contributions (Continued)

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

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

***Employer Contributions:***

The employers contractually required contribution rate for fiscal year ended June 30, 2019 was 32.60% 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 \$1,937,000 for the year ended June 30, 2019.

**Other Postemployment Benefits**

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

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

Health Insurance Premium Assistance Program

PSERS provides Premium Assistance which, is a governmental cost sharing, multiple-employer other postemployment benefit plan (OPEB) for all eligible retirees who qualify and elect to participate. Employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of Premium Assistance benefits for each succeeding year. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS Health Options Program (HOP). As of June 30, 2018 there were no assumed future benefit increases to participating eligible retirees.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

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

**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, 2018, there were no assumed future benefit increases to participating eligible retirees.

**Employer Contributions**

The School's contractually required contribution rate for the fiscal year ended June 30, 2019 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 \$49,001 for the year ended June 30, 2019.

**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.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 2 CASH AND INVESTMENTS**

**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, 2019, \$7,019,475 of the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	<u>\$ 7,019,475</u>
Total Custodial Credit Risk	<u><u>\$ 7,019,475</u></u>

Reconciliation to the financial statements:

Total Custodial Credit Risk	\$ 7,019,475
Plus: Insured Amount	500,000
Less: Outstanding Checks	<u>(274,095)</u>
Total Cash	7,245,380
Investments	<u>905,108</u>
Total Cash and Investments	<u><u>\$ 8,150,488</u></u>

**Investments**

As of June 30, 2019, the School's investments are carried at fair market value and consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Negotiable Certificates of Deposit	<u>\$ -</u>	<u>\$ 905,108</u>	<u>\$ -</u>

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 3 CAPITAL ASSETS**

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

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

Governmental Activities capital assets consist of the following at June 30, 2019:

	Balance July 1, 2018	Deletions	Additions	Balance June 30, 2019
Land	\$ 267,500	\$ -	\$ -	\$ 267,500
Building and Improvements	11,486,191	-	-	11,486,191
Furniture and Equipment	852,230	-	68,453	920,683
Capital Lease Equipment	231,720	-	-	231,720
Software	210,471	-	-	210,471
Total	13,048,112	-	68,453	13,116,565
Less: Accumulated				
Depreciation	6,505,138	-	424,967	6,930,105
Total Capital Assets, Net	\$ 6,542,974	\$ -	\$ (356,514)	\$ 6,186,460

Depreciation expense charged to governmental functions amounted to \$424,967 in 2019 and is unallocated.

Business-Type Activities capital assets consist of the following at June 30, 2019:

	Balance July 1, 2018	Deletions	Additions	Balance June 30, 2019
Building and Improvements	\$ 1,232,653	\$ -	\$ 27,770	\$ 1,260,423
Furniture and Equipment	4,556,006	-	1,560,538	6,116,544
Capital Lease Equipment	83,340	-	-	83,340
Software	692,668	-	-	692,668
Total	6,564,667	-	1,588,308	8,152,975
Less: Accumulated				
Depreciation	3,217,106	-	987,502	4,204,608
Total Capital Assets, Net	\$ 3,347,561	\$ -	\$ 600,806	\$ 3,948,367

Depreciation expense charged to business-type functions amounted to \$987,502 in 2019.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 4 CAPITAL LEASE OBLIGATIONS**

The School leases copiers under capital leases that expire February 2022. As of June 30, 2019, the leased copiers are reflected at a cost of \$315,060 and related accumulated depreciation of \$264,532. The leases require monthly payments of principal and interest ranging from \$625 to \$1,847 at rate ranging of 4.79% to 8.97% per annum.

Future minimum payments under the capital leases as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities Amount</u>	<u>Business-Type Activities Amount</u>
2020	\$ 22,164	\$ 7,500
2021	22,164	7,500
2022	<u>5,541</u>	<u>5,000</u>
Total	49,869	20,000
Less: Amount Representing Interest	<u>4,420</u>	<u>2,067</u>
Present Value of Minimum Lease Payments	<u>\$ 45,449</u>	<u>\$ 17,933</u>

The following is a summary of changes in Governmental Activities long-term debt for the year ended June 30, 2019:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>	<u>Current Portion</u>
Capital Lease Obligation	\$ 63,145	\$ -	\$ 17,696	\$ 45,449	\$ 19,184
Total Long-Term Debt	<u>\$ 63,145</u>	<u>\$ -</u>	<u>\$ 17,696</u>	<u>\$ 45,449</u>	<u>\$ 19,184</u>

The following is a summary of changes in Business-Type Activities long-term debt for the year ended June 30, 2019:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>	<u>Current Portion</u>
Capital Lease Obligation	\$ 23,723	\$ -	\$ 5,790	\$ 17,933	\$ 6,277
Total Long-Term Debt	<u>\$ 23,723</u>	<u>\$ -</u>	<u>\$ 5,790</u>	<u>\$ 17,933</u>	<u>\$ 6,277</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, 2019, the rate for the School District of Philadelphia was \$9,152 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 \$8,392,868 for the year ended June 30, 2019.



**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAMS**

The School participates in numerous state and federal grant and reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and reimbursement programs for social security taxes, retirement expense and health services are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants and reimbursement programs, refunds of any money received may be required and the collectability of any related receivable at June 30, 2019 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE 7 RETIREMENT PLAN**

Effective July 1, 2012, the School was part of the Mastery Charter School 403(b) Retirement Plan, a multiple employer defined contribution plan under Section 403(b) of the Internal Revenue Code, which employees of the School can elect to contribute. Employees, who do not participate in the PSERS retirement plan, can contribute up to 5% of their qualified compensation, with the School matching up to 5% of their qualified compensation. Employees who participate in the PSERS retirement plan can also participate in the 403(b) plan, but these 403(b) contributions are not matched by the School. The School's combined governmental activity and business-type activity contributions to the Plan for the year ended June 30, 2019 was \$513,611.

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

The School had \$53,926 payable to the Plan at June 30, 2019.

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

At June 30, 2019, the School reported a liability of \$22,514,000 for its proportionate share of net pension liability for the PSERS Plan. The net pension was measured as of June 30, 2018, 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, 2017 to June 30, 2018. The School's proportion of the net pension liability was calculated utilizing the School's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2019, the School's proportion was .0469%, which was a decrease of .0085% from its proportion measured as of June 30, 2018.

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

For the year ended June 30, 2019, the governmental functions and business-type functions recognized pension credits of \$183,641 and \$550,923, respectively. At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Governmental Activities		Business-Type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 45,250	\$ (87,000)	\$ 135,750	\$ (261,000)
Changes in Assumptions	105,000	-	315,000	-
Net Difference Between Projected and Actual Investment Earnings	27,500	-	82,500	-
Changes in Proportions	-	(1,368,750)	-	(4,106,250)
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	(4,210)	-	(12,631)
Contributions Subsequent to the Measurement Date	484,250	-	1,452,750	-
Total	<u>\$ 662,000</u>	<u>\$ (1,459,960)</u>	<u>\$ 1,986,000</u>	<u>\$ (4,379,881)</u>

The amount of \$1,937,000 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Governmental Activities Amount	Business-Type Activities Amount	Total
2020	\$ (443,608)	\$ (1,330,825)	\$ (1,774,433)
2021	(348,217)	(1,044,651)	(1,392,868)
2022	(459,305)	(1,377,915)	(1,837,220)
2023	(31,080)	(93,240)	(124,319)
Total	<u>\$ (1,282,210)</u>	<u>\$ (3,846,631)</u>	<u>\$ (5,128,840)</u>

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

**Actuarial Assumptions**

The total pension liability as of June 30, 2018 was determined by rolling forward the System's total pension liability as of the June 30, 2017 actuarial valuation to June 30, 2018 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%, including inflation at 2.75%.
- 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 long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

**Actuarial Assumptions (Continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Public Equity	20 %	5.2 %
Fixed Income	36	2.2 %
Commodities	8	3.2 %
Absolute Return	10	3.5 %
Risk Parity	10	3.9 %
Infrastructure/MLPs	8	5.2 %
Real Estate	10	4.2 %
Alternative Investments	15	6.7 %
Cash	3	0.4 %
Financing (LIBOR)	(20)	0.9 %
Total	<u>100 %</u>	

The above was the PSERS board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2018.

**Discount Rate**

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

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Employer's Proportionate Share of the Net Pension Liability	\$ 27,908	\$ 22,514	\$ 17,954

**Pension Plan Fiduciary Net Position**

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

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

At June 30, 2019, the School reported a liability of \$978,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2019, the School’s proportion was .0469%, which was a decrease of .0085% from its proportion measured as of June 30, 2018

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

For the year ended June 30, 2019, the governmental functions and business-type functions recognized OPEB expense of \$750 and \$2,250, respectively. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Governmental Activities		Business-Type Activities	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Employer Contributions and Proportionate Share of Total Contributions	\$ -	\$ (536)	\$ -	\$ (1,606)
Difference Between Expected and Actual Experience	1,500	-	4,500	-
Changes in Assumptions	3,750	(9,250)	11,250	(27,750)
Net Difference Between Projected and Actual Investment Earnings	438	-	1,313	-
Changes in Proportions	-	(59,250)	-	(177,750)
Contributions Subsequent to the Measurement Date	12,250	-	36,750	-
Total	<u>\$ 17,938</u>	<u>\$ (69,036)</u>	<u>\$ 53,813</u>	<u>\$ (207,106)</u>

The amount of \$49,000 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, 2020. 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>	Governmental Activities Amount	Business-Type Activities Amount
2020	\$ (11,457)	\$ (34,371)
2021	(11,457)	(34,371)
2022	(11,457)	(34,371)
2023	(11,520)	(34,559)
2024	(12,082)	(36,246)
Thereafter	(5,375)	(16,125)
Total	<u>\$ (63,348)</u>	<u>\$ (190,043)</u>

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

Actuarial Assumptions and Other Inputs

The total OPEB liability as of June 30, 2018, was determined by rolling forward the PSERS total OPEB liability as of June 30, 2017, to June 30, 2018, 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 – 2.98% - 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.
- 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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study that was performed for the five year period ending June 30, 2015.

The following assumptions were used to determine the contribution rate:

- The results of the actuarial valuation as of June 30, 2017, determined the employer contribution rate for fiscal year 2018.
- 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. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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

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

The OPEB plan's policy with regard to the allocation of invested plan assets is established and may be amended by the PSERS Board. Under the program, as defined in the retirement code, employer contribution rates for Premium Assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits for each succeeding year. Following is the PSERS Board's adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class, as of June 30, 2018.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.9 %	0.03 %
US Core Fixed Income	92.8	1.20 %
Non-US Developed Fixed	1.3	0.40 %
	100.0 %	

**Discount Rate**

The discount rate used to measure the total OPEB liability was 2.98% at June 30, 2018. 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 2.98%, which represents the S&P 20-year Municipal Bond Rate at June 30, 2018, was applied to all projected benefit payments to measure the total OPEB liability.



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

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

Healthcare cost trends were applied to retirees receiving less than \$1,200 in annual Premium Assistance. As of June 30, 2018, 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, 2017, 93,380 retirees were receiving the maximum amount allowed of \$1,200 per year. As of June 30, 2017, 1,077 members were receiving less than the maximum amount allowed of \$1,200 per year. The actual number of retirees receiving less than the \$1,200 per year cap is a small percentage of the total population and has a minimal impact on Healthcare Cost Trends as depicted below.

The following presents the School's share of the Premium Assistance net OPEB liability at June 30, 2019, 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%)
\$ 978	\$ 978	\$ 978

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 2.98%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.98%) or one percentage point higher (3.98%) than the current rate (2.98%).

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate (in Thousands)		
1% Decrease 1.98%	Correct Rate 2.98%	1% Increase 3.98%
\$ 1,112	\$ 978	\$ 866

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

OPEB Plan Fiduciary Net Position

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

**NOTE 10 RISK MANAGEMENT**

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

**NOTE 11 MANAGEMENT AND TECHNOLOGY AGREEMENTS**

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

As of July 1, 2018, the School entered into a one-year management agreement to receive educational, administrative, and financial services from NST. In addition, the School entered into a one-year management agreement with the other Mastery Charter Schools to provide educational, administrative, and financial services. As a result of common usage of the NST, the Mastery Charter Schools are considered related parties (see Note 12). The NST management fee is 10% of local school funds plus reimbursement for any costs NST incurs in providing the educational and administrative services. Unless specified notice is given, the agreement renews each year during the term of the School's charter. The total fee paid by the School to the NST was \$839,287 for the fiscal year. The total NST management fee revenue from the Mastery Charter Schools totaled \$20,151,721 for the fiscal year.

As of July 1, 2018, the School entered into a one-year technology and equipment agreement with the NST. In addition, the School entered into a one-year technology and equipment agreement with the other Mastery Charter Schools. A set fee was established with each of the other schools. These agreements renew annually. The total fee paid by the School to the NST was \$52,836 for the fiscal year. The total NST management fee revenue from the Mastery Charter Schools totaled \$1,632,132 for the fiscal year.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 12 RELATED PARTY TRANSACTIONS**

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

The following represents amounts due from and to related parties as of June 30, 2019 for balances due to (from) other Mastery Charter Schools.

	Mastery Charter High School		NST		Total	
	Due From (Receivable)	Due to (Payable)	Due From (Receivable)	Due to (Payable)	Due From (Receivable)	Due to (Payable)
Due from Other						
Governmental Entities	\$ 4,011	\$ -	\$ 30,928	\$ 3,758	\$ 34,939	\$ 3,758
Total	<u>\$ 4,011</u>	<u>\$ -</u>	<u>\$ 30,928</u>	<u>\$ 3,758</u>	<u>\$ 34,939</u>	<u>\$ 3,758</u>

**NOTE 13 LOAN PAYABLE TO MASTERY CHARTER SCHOOLS FOUNDATION**

There are significant transactions with Mastery Charter Schools Foundation (MCSF). During the year ended June 30, 2019, MCSF provided an interest-free loan totaling \$1,000,000 to NST for general operating costs for the start up of Mastery Prep Elementary Charter School. The loan has a maturity date of June 30, 2021. NST advanced these funds to Mastery Prep Elementary Charter school and recorded \$1,000,000 as due from other government entities on the accompanying statement of net position.

Future minimum payments under the loan payable as of June 30, 2019 are as follows:

Year Ending June 30,	Principal	Interest
2020	\$ -	\$ -
2021	1,000,000	-
Total	<u>\$ 1,000,000</u>	<u>\$ -</u>

The following is a summary of changes in Governmental Activities long-term debt for the year ended June 30, 2019:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019	Current Portion
Loan Payable MCS Foundation	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>

**MASTERY CHARTER HIGH SCHOOL  
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**NOTE 14 RECENT ACCOUNTING PRONOUNCEMENTS**

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions in Statement No.84 are effective for reporting periods beginning after December 15, 2018. The School is assessing if Statement No. 84 will have any impact on its financial statements.

In 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 adopted Statement No. 88 and no financial statement changes were noted.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

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

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

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, which is effective for reporting periods beginning after December 15, 2020. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

**NOTE 15 CONTINGENCIES**

The School is sometimes subject to litigation or the threat of litigation in the ordinary course of its business. In accordance with accounting principles generally accepted in the United States of America, the School recognizes such contingencies in the financial statements when it is both probable that a material liability has been incurred and the amount can be reasonably estimated.

**MASTERY CHARTER HIGH SCHOOL  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – GENERAL FUND  
(UNAUDITED)  
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under)
	Original	Final		Final Budget
<b>REVENUES</b>				
Local Educational Agencies	\$ 8,145,285	\$ 8,550,000	\$ 8,392,868	\$ (157,132)
State Sources	52,151	52,000	66,660	14,660
Federal Sources	708,460	748,000	728,886	(19,114)
Other Grants and Contributions	-	26,000	5,500	(20,500)
Other Local Sources	69,000	90,000	104,098	14,098
Interest	-	-	18,269	18,269
Total Revenues	<u>8,974,896</u>	<u>9,466,000</u>	<u>9,316,281</u>	<u>(149,719)</u>
<b>EXPENDITURES</b>				
Instruction	6,137,165	6,133,500	6,166,124	32,624
Support Services	2,721,231	3,016,500	3,051,133	34,633
Noninstructional Services	116,500	116,000	105,366	(10,634)
Total Expenditures	<u>8,974,896</u>	<u>9,266,000</u>	<u>9,322,623</u>	<u>56,623</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ 200,000</u>	(6,342)	<u>\$ (206,342)</u>
Fund Balance - Beginning of Year			<u>576,636</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 570,294</u>	

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

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

Fiscal Year	PSERS Net Pension Liability		School's Covered Employee Payroll	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	0.06970%	\$ 27,588	\$ 8,894	310%	57.2%
2015/16	0.06270%	27,159	8,062	337%	54.4%
2016/17	0.06070%	30,080	7,864	383%	50.1%
2017/18	0.55400%	27,361	7,377	371%	51.8%
2018/19	0.04690%	22,514	6,315	357%	54.0%

PSERS Schedule of Contributions (Unaudited)  
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percent of Covered Employee Payroll
2015/16	1,866	1,866	-	7,864	23.7%
2016/17	2,093	2,093	-	7,377	28.4%
2017/18	2,029	2,029	-	6,315	32.1%
2018/19	1,937	1,937	-	5,940	32.6%

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

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

Fiscal Year	PSERS Net OPEB Liability		School's Covered Employee Payroll	School's Proportionate Share of Net OPEB Liability as a Percentage of Covered Employee Payroll	PSERS Fiduciary Net Position as a Percentage of Total OPEB Liability
	School's Proportion	School's Proportionate Share			
2017/18	0.05540%	\$ 1,129	\$ 7,377	15%	5.73%
2018/19	0.04690%	978	6,315	15%	5.56%

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percent of Covered Employee Payroll
2017/18	\$ 53	\$ 53	\$ -	\$ 6,315	0.8%
2018/19	49	49	-	5,940	0.8%



**MASTERY CHARTER HIGH SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2019**

Federal Grantor/ Pass-Through Grantor/ Program Title	Source Code	Federal CFDA Number	Pass- Through Grantor's Number	Grant/ Contract Period	Grant Amount	Accrued (Deferred) Revenue at July 1, 2018	Total Received for the Year	Federal Disbursements/ Expenditures	Accrued (Deferred) at June 30, 2019
<b>U.S. Department of Education:</b>									
Charter School Program Grant - Replication Project for High-Quality Turnaround Schools	D	84.282M	U282M150038	10/1/15 - 9/30/20	\$ 8,304,416	\$ 51,025	\$ 997,751	\$ 1,006,714	\$ 59,988
Teacher Incentive Fund Grant	D	84.374A	U374A160071	10/1/16 - 9/30/21	11,735,716	589,567	5,590,061	5,470,596	470,102
Innovative Approaches to Literacy Program	D	84.215G	S215G180142	10/1/18 - 9/30/21	734,727	-	290,003	330,087	40,084
<b>Pass-Through Pennsylvania Department of Education:</b>									
Title I - Improving Basic Programs	I	84.010	013 181023	8/21/17 - 9/30/18	497,102	69,342	69,342	-	-
Title I - Improving Basic Programs	I	84.010	013 191023	7/6/18 - 9/30/19	511,947	-	479,380	511,947	32,567
Title II - Improving Teacher Quality	I	84.367	020 191023	7/6/18 - 9/30/19	42,575	-	39,868	42,575	2,707
Title IV, Part A - Student Support and Academic Enrichment	I	84.424	144 181023	8/21/17 - 9/30/18	11,259	805	805	-	-
Title IV, Part A - Student Support and Academic Enrichment	I	84.424	144 191023	7/1/18 - 9/30/19	35,954	-	33,557	35,954	2,397
<b>Pass-Through School District of Philadelphia:</b>									
Individuals with Disabilities Act Part B	I	85.027	N/A	7/1/17 - 6/30/18	153,725	153,725	153,725	-	-
Individuals with Disabilities Act Part B	I	85.027	N/A	7/1/18 - 6/30/19	138,409	-	-	138,409	138,409
Total U.S. Department of Education						<u>864,464</u>	<u>7,654,492</u>	<u>7,536,282</u>	<u>746,254</u>
<b>U.S. Department of Agriculture</b>									
<b>Pass-Through Pennsylvania Department of Education:</b>									
<b>Child Nutrition Cluster:</b>									
Food and Nutrition Services - School Breakfast Program	I	10.553	N/A	7/1/17 - 6/30/18	883,713	153,377	153,377	-	-
Food and Nutrition Services - School Lunch Program	I	10.555	N/A	7/1/17 - 6/30/18	3,166,844	538,067	538,067	-	-
Food and Nutrition Services - School Breakfast Program	I	10.553	N/A	7/1/18 - 6/30/19	1,103,560	-	947,143	1,103,560	156,417
Food and Nutrition Services - School Lunch Program	I	10.555	N/A	7/1/18 - 6/30/19	3,721,235	-	3,218,354	3,721,235	502,881
Food and Nutrition Services - School Lunch Program - Donated Commodities	I	10.555	N/A	7/1/18 - 6/30/19	173,126	-	173,126	173,126	-
Total Child Nutrition Cluster						<u>691,444</u>	<u>5,030,067</u>	<u>4,997,921</u>	<u>659,298</u>
<b>Pass-Through Pennsylvania Department of Education:</b>									
Food and Nutrition Services - Fresh Fruit and Vegetable Program	I	10.582	N/A	7/1/17 - 6/30/18	31,152	3,689	5,840	2,151	-
Total U.S. Department of Agriculture and						<u>695,133</u>	<u>5,035,907</u>	<u>5,000,072</u>	<u>659,298</u>
<b>U.S. Department of Health and Human Services</b>									
<b>Pass-Through Pennsylvania Department of Public Welfare</b>									
Medical Assistance	I	93.778	044-007568	7/1/14 - 6/30/17	58,772	563	563	-	-
Total U.S. Department of Health and Human Services						<u>563</u>	<u>563</u>	<u>-</u>	<u>-</u>
<b>Total Expenditures of Federal Awards</b>						<b>\$ 1,560,160</b>	<b>\$ 12,690,962</b>	<b>\$ 12,536,354</b>	<b>\$ 1,405,552</b>

D - Direct Funding

I - Indirect Funding

Note: There were no awards passed through to subrecipients

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**MASTERY CHARTER HIGH SCHOOL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2019**

**NOTE 1 GENERAL INFORMATION**

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

**NOTE 2 BASIS OF PRESENTATION**

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

**NOTE 3 RELATIONSHIP TO FINANCIAL STATEMENTS**

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

**NOTE 4 INDIRECT COST RATE**

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



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

Board of Trustees  
Mastery Charter High School  
Philadelphia, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Mastery Charter High School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Mastery Charter High School's basic financial statements, and have issued our report thereon dated November 21, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mastery Charter High School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mastery Charter High School's internal control. Accordingly, we do not express an opinion on the effectiveness of Mastery Charter High School's internal control.

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 21, 2019



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

Board of Trustees  
Mastery Charter High School  
Philadelphia, Pennsylvania

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

We have audited Mastery Charter High School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mastery Charter High School's major federal programs for the year ended June 30, 2019. Mastery Charter High School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

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

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

**Opinion on Each Major Federal Program**

In our opinion, Mastery Charter High School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

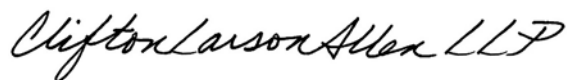
**Report on Internal Control Over Compliance**

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

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

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

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



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 21, 2019

**MASTERY CHARTER HIGH SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2019**

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

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***Financial Statements***

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

***Federal Awards***

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

***Identification of Major Federal Programs***

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
84.374	U.S. Department of Education – Teacher Incentive Fund
84.282M	U.S. Department of Education – Charter School Program
84.215G	U.S. Department of Education – Innovative Approaches to Literacy Program

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 HIGH SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2019**

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

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

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

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Our audit did not disclose any matters required to be reported in accordance with the Uniform Grant Guidance.

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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 Uniform Grant Guidance.



