

MASTERY CHARTER SCHOOL – PREP ELEMENTARY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2020)**



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Mastery Charter School – Prep Elementary
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Mastery Charter School – Prep Elementary, as of and for the year ended June 30, 2021, the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Mastery Charter School – Prep Elementary as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 6 and the schedule of revenues, expenditures, and changes in fund balance – budget and actual on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited Mastery Charter School – Prep Elementary’s 2020 financial statements, and we expressed unmodified audit opinions on those audited financial statements of the governmental activities and general fund in our report dated November 19, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2021 on our consideration of Mastery Charter School – Prep Elementary’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mastery Charter School – Prep Elementary’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mastery Charter School – Prep Elementary’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 9, 2021

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2021**

The management of Mastery Charter School – Prep Elementary (the School) offers readers of the School’s financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the School’s financial statements.

On June 21, 2018, the School was granted a new charter by the Commonwealth of Pennsylvania as “Mastery Charter School – Prep Elementary” for a term of July 1, 2018 to June 30, 2023, under the new management of the Mastery Charter Schools.

Financial Highlights

- Total revenues increased by \$1,644,632 to \$7,368,165, primarily due to an increase in the student subsidies, federal sources, and other local sources, offset by decreases in state sources and other grants and contributions for the year ended June 30, 2021.
- At the close of the current fiscal year, the School reports ending net position of \$1,938,929. This net position balance represents an increase in net position of \$1,351,303 for the year ended June 30, 2021.
- At the close of the current fiscal year, the School reports an ending general fund balance of \$1,602,167. The general fund balance represents an increase in fund balance of \$342,123 for the year ended June 30, 2021.
- The School’s cash and cash equivalents balance at June 30, 2021 was \$2,075,904, an increase of \$649,076 from June 30, 2020.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2021**

Overview of the Financial Statements

Fund Financial Statements

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

Notes to the Financial Statements

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

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the School, assets exceeded liabilities by \$1,938,929 as of June 30, 2021.

	2021	2020
Current and Other Assets	\$ 2,383,554	\$ 1,744,297
Capital Assets	371,604	377,762
Total Assets	2,755,158	2,122,059
Current Liabilities	797,808	1,499,591
Noncurrent Liabilities	18,421	34,842
Total Liabilities	816,229	1,534,433
Net Investment in Capital Assets	336,762	327,582
Unrestricted	1,602,167	260,044
Total Net Position	\$ 1,938,929	\$ 587,626

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2021**

Government-Wide Financial Analysis (Continued)

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

	2021	2020
REVENUES		
Local Educational Agencies	\$ 5,628,530	\$ 4,152,172
State Sources	58,195	194,369
Federal Sources	657,561	343,950
Other Grants and Contributions	350,651	463,225
Other Local Sources	665,618	566,677
Interest	7,610	3,140
Total Revenues	7,368,165	5,723,533
 EXPENDITURES		
Instruction	2,429,148	2,007,431
Special Education	991,938	853,788
Student Support Services	3,464	14,105
Pupil Support	242,915	161,182
Instruction Support Services	1,530	8,728
Administration Support	1,110,683	730,081
Pupil Health	282,590	54,833
Business Support	35,000	24,037
Operations and Maintenance	745,753	645,400
Other Support Services	63,922	36,384
Student Activities	24,701	71,377
Interest Expense	2,902	3,914
Depreciation Expense	82,316	75,644
Total Expenditures	6,016,862	4,686,904
 Change in Net Position	1,351,303	1,036,629
 Net Position - Beginning	587,626	(449,003)
 Net Position - Ending	\$ 1,938,929	\$ 587,626

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2021**

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 \$1,602,167. For the year ended June 30, 2021, the School’s revenues of \$7,368,165 exceeded expenditures of \$7,026,042 by \$342,123.

General Fund Budgetary Highlights

Actual revenues were greater than budgeted revenue by \$544,165 due to greater than budgeted local sources, federal sources, and other local sources, offset by less than budgeted state sources and other grants and contributions. Actual expenditures were less than budgeted expenditures by \$446,042 due to less than budgeted instruction, support services and noninstructional services expenditures, offset by unbudgeted debt service payments.

Capital Asset

As of June 30, 2021, the School’s investment in capital assets for its governmental activities totaled \$336,762 (net of accumulated depreciation and related debt). This investment in capital assets includes leasehold improvements, furniture and fixtures and equipment.

Major capital asset purchases during the year included the following:

- Capital expenditures of \$32,354 for equipment
- Capital expenditures of \$37,104 for furniture
- Capital expenditures of \$6,700 for leasehold improvements

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

Long-Term Debt

As of June 30, 2021, the School has long-term debt of \$34,842 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 decrease from \$10,788 to \$10,639 per regular education student and increase from \$30,306 to \$31,099 per special education student.

Contacting the School’s Financial Management

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

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
STATEMENT OF NET POSITION
JUNE 30, 2021
(WITH COMPARATIVE TOTALS AT JUNE 30, 2020)

	Governmental Activities	
	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,075,904	\$ 1,426,828
State Subsidies Receivable	49,394	-
Federal Subsidies Receivable	51,700	46,676
Other Receivables	42,462	36,073
Prepaid Expenses	76,594	59,720
Due from Mastery Charter School Foundation	87,500	175,000
Total Current Assets	2,383,554	1,744,297
CAPITAL ASSETS, NET	371,604	377,762
Total Assets	2,755,158	2,122,059
LIABILITIES		
CURRENT LIABILITIES		
Capital Lease Obligation - Current Maturities	16,421	15,338
Accounts Payable	187,286	128,810
Accrued Expenses	302,690	351,635
Due to Other Governmental Entities	350	3,808
Due to Mastery Charter School Foundation	250,000	-
Unearned Revenue	41,061	-
Loan Payable	-	1,000,000
Total Current Liabilities	797,808	1,499,591
LONG-TERM LIABILITIES		
Capital Lease Obligation - Net of Current Portion	18,421	34,842
Total Liabilities	816,229	1,534,433
NET POSITION		
Net Investment in Capital Assets	336,762	327,582
Unrestricted	1,602,167	260,044
Total Net Position	\$ 1,938,929	\$ 587,626

See accompanying Notes to Financial Statements.

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

Functions	Expenses	Program Revenues Operating Grants and Contributions	2021	2020
			Net (Expense) Revenue and Changes in Net Position Total Governmental Activities	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities
Governmental Activities:				
Instruction	\$ 2,429,148	\$ 611,179	\$ (1,817,969)	\$ (1,663,481)
Special Education	991,938	46,382	(945,556)	(853,788)
Student Support Services	3,464	-	(3,464)	(14,105)
Pupil Support	242,915	-	(242,915)	(161,182)
Instruction Support Services	1,530	-	(1,530)	(8,728)
Administration Support	1,110,683	-	(1,110,683)	(730,081)
Pupil Health	282,590	-	(282,590)	(54,833)
Business Support	35,000	-	(35,000)	(24,037)
Operations and Maintenance	745,753	-	(745,753)	(645,400)
Other Support Services	63,922	-	(63,922)	(36,384)
Student Activities	24,701	-	(24,701)	(71,377)
Interest Expense	2,902	-	(2,902)	(3,914)
Depreciation Expense	82,316	-	(82,316)	(75,644)
Total	\$ 6,016,862	\$ 657,561	(5,359,301)	(4,342,954)
General Revenues:				
Local Educational Agencies			5,628,530	4,152,172
State Grants and Reimbursements			58,195	194,369
Other Grants and Contributions			350,651	463,225
Other Local Sources			665,618	566,677
Interest			7,610	3,140
Total General Revenues			6,710,604	5,379,583
Change in Net Position			1,351,303	1,036,629
Net Position - Beginning of Year			587,626	(449,003)
Net Position - End of Year			\$ 1,938,929	\$ 587,626

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2021
(WITH COMPARATIVE TOTALS AT JUNE 30, 2020)**

	2021	2020
	General Fund	General Fund
ASSETS		
Cash and Cash Equivalents	\$ 2,075,904	\$ 1,426,828
State Subsidies Receivable	49,394	-
Federal Subsidies Receivable	51,700	46,676
Other Receivables	42,462	36,073
Prepaid Expenses	76,594	59,720
Due from Mastery Charter School Foundation	87,500	175,000
Due from Other Governmental Entities	-	-
	<u>\$ 2,383,554</u>	<u>\$ 1,744,297</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	\$ 187,286	\$ 128,810
Accrued Expenses	302,690	351,635
Due to Other Governmental Entities	350	3,808
Due to Mastery Charter School Foundation	250,000	-
Unearned Revenue	41,061	-
Total Liabilities	<u>781,387</u>	<u>484,253</u>
FUND BALANCE		
Nonspendable:		
Prepaid Expenses	76,594	59,720
Assigned to:		
Future Budget Deficits	1,525,573	200,324
Repayment of Loan Payable	-	1,000,000
Total Fund Balance	<u>1,602,167</u>	<u>1,260,044</u>
Total Liabilities and Fund Balance	<u>\$ 2,383,554</u>	<u>\$ 1,744,297</u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021**

Total Fund Balance for Governmental Funds	\$ 1,602,167
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	371,604
Capital lease obligations and loans payable used in governmental funds are not financial resources and, therefore, are not reported in the fund liabilities. The total capital lease obligations and loans payable ,both current and long-term, are reported in the statement of net position. Balances at year-end are:	
Capital Lease Obligations	<u>(34,842)</u>
Total Net Position of Governmental Activities	<u><u>\$ 1,938,929</u></u>

See accompanying Notes to Financial Statements.

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	<u>2021</u>	<u>2020</u>
	General Fund	General Fund
REVENUES		
Local Educational Agencies	\$ 5,628,530	\$ 4,152,172
State Sources	58,195	194,369
Federal Sources	657,561	343,950
Other Grants and Contributions	350,651	463,225
Other Local Sources	665,618	566,677
Interest	7,610	3,140
Total Revenues	<u>7,368,165</u>	<u>5,723,533</u>
EXPENDITURES		
Instruction	3,424,550	2,911,941
Support Services	2,576,791	1,685,785
Noninstructional Services	24,701	71,377
Debt Service - Principal	1,000,000	-
Total Expenditures	<u>7,026,042</u>	<u>4,669,103</u>
NET CHANGE IN FUND BALANCE	342,123	1,054,430
Fund Balance - Beginning of Year	<u>1,260,044</u>	<u>205,614</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,602,167</u>	<u>\$ 1,260,044</u>

See accompanying Notes to Financial Statements.

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

Net Change in Fund Balance – Total Governmental Funds \$ 342,123

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.

Capital Outlays	76,158
Depreciation Expense	(82,316)

Governmental funds report loan payable proceeds as financing sources, while repayment is reported as expenditures. In the statement of net position, however, the loan payable 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 loan payable is as follows:

Loan Payable Payments	1,000,000
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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 Payments	15,338
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Change in Net Position of Governmental Activities \$ 1,351,303

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Mastery Charter School – Prep Elementary (the School) was formed as a Pennsylvania nonprofit corporation to operate in accordance with Pennsylvania Act 22 of 1997. On June 21, 2018, the School was granted a new charter by the Commonwealth of Pennsylvania as “Mastery Charter School – Prep Elementary” for a term of July 1, 2018 to June 30, 2023, in accordance with Pennsylvania Act 22 of 1997. During the year ended June 30, 2021, the School served approximately 400 students in grades kindergarten through fifth.

Basis of Presentation

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

Government-Wide and Fund Financial Statements

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

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

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School’s financial statements for the year ended June 30, 2020 from which the summarized information was derived.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

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

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

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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

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

Fund Financial Statements

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

The government reports the following major governmental fund:

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

Method of Accounting

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

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

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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

Method of Accounting (Continued)

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

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

Budgets and Budgetary Accounting

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

The budgetary comparison schedule presents both the original and the final appropriated budgets for the reporting period. The School only has a general fund budget; an original budget was filed and accepted by the Labor, Education, and Community Services Comptroller's Office in June 2020. An amended budget was approved by the board of trustees in January 2021. The budget is required supplementary information.

Use of Estimates

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

Concentration of Credit Risk

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

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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

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, 2021. The stop-loss insurance also provides up to \$1,000,000 of coverage beyond the aggregate annual claims limit of \$19,885,618 for the fiscal year ended June 30, 2021. The annual claims limit is based on the average enrollment of 1,469 covered employees, but is ultimately derived based on the actual covered employees times a monthly claims factor of \$1,128, for each month of the policy period.

During the year ended June 30, 2021, the 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, 2021, 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 \$16,612,373, which includes the School's portion of \$271,452 for the year ended June 30, 2021.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable primarily consist of amounts due from the Pennsylvania Department of Education for federal, state, and local subsidy programs. Accounts receivable are stated at the amount management expects to collect from outstanding balances. As of June 30, 2021, no allowance for doubtful accounts was deemed warranted based on historical experience.

Prepaid Expenses

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

Capital Assets

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

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

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

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities. In the Governmental fund financial statements, the face amount of debt is issued is reported as another financing source and is not considered a fund liability, and repayments of debt are considered debt service expenditures.

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.

NOTE 2 CASH AND CASH EQUIVALENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School invests in repurchase agreements with its bank wherein the funds are secured by obligations of the U.S. government or agencies or instrumentalities of the U.S. government. As of June 30, 2021, \$1,877,340 of the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 1,877,340
Total Custodial Credit Risk	<u>\$ 1,877,340</u>

Reconciliation to the financial statements:

Custodial Credit Risk from Above	\$ 1,877,340
Plus: Insured Amount	250,000
Less: Outstanding Checks	<u>(51,436)</u>
Total Cash Per the Financial Statements	<u>\$ 2,075,904</u>

NOTE 3 CAPITAL ASSETS

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

Leasehold Improvements	5 Years
Equipment	5 to 10 Years
Furniture and Fixtures	7 Years
Software	3 Years
Capital Lease Equipment	5 Years

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year is summarized below:

Description	Balance July 1, 2020	Deletions	Additions	Balance June 30, 2021
Equipment	\$ 134,384	\$ -	\$ 32,354	\$ 166,738
Furniture	223,223	-	37,104	260,327
Leasehold Improvements	77,005	-	6,700	83,705
Capital Lease Equipment	73,786	-	-	73,786
Total	<u>508,398</u>	<u>-</u>	<u>76,158</u>	<u>584,556</u>
Less: Accumulated				
Depreciation	130,636	-	82,316	212,952
Capital Assets, Net	<u>\$ 377,762</u>	<u>\$ -</u>	<u>\$ (6,158)</u>	<u>\$ 371,604</u>

Depreciation expense charged to governmental functions amounted to \$82,316 for the year ended June 30, 2021 and is unallocated.

NOTE 4 CAPITAL LEASE OBLIGATIONS

The School leases several copiers under a capital lease that expires in June 2023. As of June 30, 2021, the leased copiers are reflected at a cost of \$73,786 and related accumulated depreciation of \$44,271. The lease requires monthly payments of principal and interest amounting to \$1,520, at an interest rate of 6.172% per annum.

Future minimum payments under the capital lease as of June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 18,240
2023	18,240
Total	<u>36,480</u>
Less: Amount Representing Interest	1,638
Present Value of Minimum Lease Payments	<u>\$ 34,842</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2021:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021	Current Balance
Capital Lease Obligation	<u>\$ 50,180</u>	<u>\$ -</u>	<u>\$ 15,338</u>	<u>\$ 34,842</u>	<u>\$ 16,421</u>

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

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, 2021, the rate for the School District of Philadelphia was \$10,788 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 \$5,628,530 for the year ended June 30, 2021.

NOTE 6 GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAMS

The School participates in numerous state and federal grant and reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and reimbursement programs for social security taxes, retirement expense, facility lease expense, and health services are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants and reimbursement programs, refunds of any money received may be required and the collectability of any related receivable at June 30, 2021 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 7 RETIREMENT PLAN

The School participates in the Mastery Charter School 403(b) Retirement Plan, a multiple employer defined contribution plan under Section 403(b) of the Internal Revenue Code, which employees of the School can elect to contribute. Employees, who do not participate in the PSERS retirement plan, can contribute up to 5% of their qualified compensation, with the School matching up to 5% of their qualified compensation. Employees who participate in the PSERS retirement plan can also participate in the 403(b) plan, but these 403(b) contributions are not matched by the School. The School's contributions to the Plan for the year ended June 30, 2021 was \$121,428.

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

The School owed the Plan \$795 at June 30, 2021.

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 RISK MANAGEMENT

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage over the last year.

NOTE 9 MANAGEMENT AGREEMENT

The Mastery Schools use the 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, 2020, the School entered into a one-year agreement with the Mastery Charter High School to provide educational, administrative, finance, and other back-office services. As a result of common usage of the NST, the Mastery Schools are considered related parties (see Note 10). The NST management fee is 10% of the per-pupil funding received from the local school district by each school. The total fee was \$562,853 for the year ended June 30, 2021. The management agreement also provides for technology subscription services. The subscription fee is set annually based on the technology deployed at each school. The technology subscription fee was \$99,000 for the year ended June 30, 2021. Unless specified notice is given, the management agreement renews each year during the term of the School's charter.

NOTE 10 RELATED PARTY TRANSACTIONS

Mastery Charter High School, Mastery Charter School – Shoemaker Campus, Mastery Charter School – Thomas Campus, Mastery Charter School – Pickett Campus, Mastery Charter School – Harrity Elementary, Mastery Charter School – Mann Elementary, Mastery Charter School – Smedley Elementary, Hardy Williams Academy Charter School, Grover Cleveland Mastery Charter School, Mastery Charter School – Gratz Campus, Mastery Charter School – Clymer Campus, Francis D. Pastorius Mastery Charter School, Frederick Douglass Mastery Charter School, and Mastery Charter School – John Wister Elementary are considered related parties as a result of common members of the boards, the management of the schools, and common usage of the NST (see Note 9).

The following represents amounts due from and to related parties as of June 30, 2021:

	Due from (Receivable)	Due to (Payable)
Due to/from Other Governmental Entities (all Schools)	\$ -	\$ 350

**MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 11 LOAN PAYABLE

During the year ended June 30, 2019, NST provided an interest-free loan totaling \$1,000,000 to the School for general operating and start up costs. The loan matured on June 30, 2021, and has been repaid in full.

The following is a summary of changes in loan payable for the year ended June 30, 2021:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion
Governmental Activities:					
Loan Payable from Direct Borrowing	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -	\$ -

NOTE 12 FACILITY LEASE AGREEMENT

As of July 1, 2018, the School began leasing its facility from the Mastery Charter School Foundation. The lease will run concurrently with the term of the charter. The rent expense is paid on a monthly basis of \$25,000. For the year ended June 30, 2021, the rent expense was \$300,000.

NOTE 13 NEWLY ADOPTED STATEMENTS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

In January 2017, the GASB issued Statement No. 84, Fiduciary Activities, which is effective for fiscal years beginning after December 15, 2019. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Criteria for identifying fiduciary activities are generally defined as (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. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement also defines four fiduciary funds that should be reported. The School adopted Statement No. 84 and determined the standard did not have any impact on its financial statements.

MASTERY CHARTER SCHOOL – PREP ELEMENTARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 13 NEWLY ADOPTED STATEMENTS ISSUED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (CONTINUED)

In August 2018, the GASB issued Statement No. 90, Majority Equity Interests, which is effective for fiscal years beginning after December 15, 2019. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. This Statement also provides guidance for reporting component unit if a government acquires a 100% equity interest in that component unit. An equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. The School adopted Statement No. 90 for its fiscal year 2021 and determined the standard did not have any impact on its financial statements.

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates, which is effective for fiscal years beginning after June 15, 2021. This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The School adopted Statement No. 93 for its fiscal year 2021 and determined the standard did not have any impact on its financial statements.

NOTE 14 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 SCHOOL – PREP ELEMENTARY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
(UNAUDITED)
YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources	\$ 5,486,000	\$ 5,603,000	\$ 5,628,530	\$ 25,530
State Sources	6,000	78,000	58,195	(19,805)
Federal Sources	478,000	561,000	657,561	96,561
Other Grants and Contributions	100,000	549,000	350,651	(198,349)
Other Local Sources	31,000	33,000	665,618	632,618
Interest	-	-	7,610	7,610
Total Revenues	<u>6,101,000</u>	<u>6,824,000</u>	<u>7,368,165</u>	<u>544,165</u>
EXPENDITURES				
Instruction	3,722,000	3,883,000	3,424,550	(458,450)
Support Services	2,237,000	2,621,000	2,576,791	(44,209)
Noninstructional Services	112,000	76,000	24,701	(51,299)
Debt Service - Principal	-	-	1,000,000	1,000,000
Total Expenditures	<u>6,071,000</u>	<u>6,580,000</u>	<u>7,026,042</u>	<u>446,042</u>
NET CHANGE IN FUND BALANCE	<u>\$ 30,000</u>	<u>\$ 244,000</u>	342,123	<u>\$ 98,123</u>
Fund Balance - Beginning of Year			<u>1,260,044</u>	
FUND BALANCE - END OF YEAR			<u>\$ 1,602,167</u>	



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

Board of Trustees
Mastery Charter School – Prep Elementary
Philadelphia, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of Mastery Charter School – Prep Elementary, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Mastery Charter School – Prep Elementary's basic financial statements, and have issued our report thereon dated December 9, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mastery Charter School – Prep Elementary’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 results 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
December 9, 2021

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