

FREDERICK DOUGLASS MASTERY CHARTER SCHOOL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

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

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**FREDERICK DOUGLASS MASTERY CHARTER SCHOOL
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2018**

INDEPENDENT AUDITORS' REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	4
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	8
STATEMENT OF ACTIVITIES	9
BALANCE SHEET – GOVERNMENTAL FUNDS	10
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	11
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS	12
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	13
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND (UNAUDITED)	38
SCHEDULES OF PROPORTIONATE SHARE OF PSERS NET PENSION LIABILITY AND CONTRIBUTIONS (UNAUDITED)	39
SCHEDULES OF PROPORTIONATE SHARE OF PSERS NET OPEB LIABILITY AND CONTRIBUTIONS (UNAUDITED)	40

**FREDERICK DOUGLASS MASTERY CHARTER SCHOOL
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2018**

SINGLE AUDIT REQUIREMENTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	41
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	42
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 <i>GOVERNMENT AUDITING STANDARDS</i>	43
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	45
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	47

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Frederick Douglass Mastery Charter School
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of Frederick Douglass Mastery Charter School, as of June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of Frederick Douglass Mastery Charter School as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 13 to the financial statements, Frederick Douglass Mastery Charter School adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, for the year ended June 30, 2018, which represents a change in accounting principle. As of July 1, 2017, Frederick Douglass Mastery Charter School's net position was restated to reflect the impact of adoption. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7, the schedule of revenues, expenditures, and changes in fund balance – budget and actual on page 38, the schedules of proportionate share of PSERS net pension liability and contributions on page 39, and the schedules of proportionate share of PSERS net OPEB liability and contributions on pages 40 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 Frederick Douglass Mastery Charter School's 2017 financial statements, and we expressed unmodified audit opinions on those audited financial statements of the governmental activities and general fund in our report dated November 10, 2017. In our opinion, the summarized comparative information presented herein as of and for the period ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

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

Other Reporting Required by Government Auditing Standards

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



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 15, 2018

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

The management of Frederick Douglass Mastery Charter 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 year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- Total revenues decreased \$654,699 to \$11,169,429 primarily due to a decrease in federal sources, other grants and contributions, and other local sources, offset by an increase in local educational agencies.
- At the close of the current fiscal year, the School reports ending net position of (\$9,042,024). This net position balance represents an increase in net position of \$1,989,124, which includes the impact of restatement for the OPEB liability of (\$342,000), for the year ended June 30, 2018.
- At the close of the year ended June 30, 2018, the School reports an ending fund balance of \$1,783,013. This general fund balance represents an increase in fund balance of \$405,995 for the year ended June 30, 2018.
- The School's cash balance at June 30, 2018 was \$2,624,282, which is a decrease of \$74,168 from June 30, 2017.

Overview of the Financial Statements

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

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

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

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

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

Fund Financial Statements

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

Notes to the Financial Statements

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

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows exceeded assets and deferred outflows by \$9,042,024 as of June 30, 2018.

	2018	2017
Current and Other Assets	\$ 3,087,326	\$ 3,050,396
Capital Assets	702,397	757,921
Total Assets	<u>3,789,723</u>	<u>3,808,317</u>
Deferred Outflows	697,402	1,201,073
Current Liabilities	1,340,776	1,708,139
Noncurrent Liabilities	5,551,100	8,210,788
Total Liabilities	<u>6,891,876</u>	<u>9,918,927</u>
Deferred Inflows	<u>6,637,273</u>	<u>6,121,611</u>
Net Investment in Capital Assets	617,834	638,597
Unrestricted	(9,659,858)	(11,669,745)
Total Net Position	<u>\$ (9,042,024)</u>	<u>\$ (11,031,148)</u>

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

Government-Wide Financial Analysis (Continued)

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

	<u>2018</u>	<u>2017</u>
REVENUES		
Local Educational Agencies	\$ 9,128,054	\$ 8,974,565
State Sources	80,001	80,664
Federal Sources	1,682,683	1,767,975
Other Grants and Contributions	96,344	662,276
Other Local Sources	<u>182,347</u>	<u>338,648</u>
Total Revenues	11,169,429	11,824,128
 EXPENDITURES		
Instruction	2,650,703	3,744,525
Special Education	2,856,660	2,200,115
Student Support Services	(645,488)	151,125
Instruction Support Services	925,180	455,966
Administration Support	1,300,338	1,333,695
Pupil Health	65,580	64,234
Business Support	71,477	62,010
Operations and Maintenance	704,613	599,504
Other Support Services	71,881	70,116
Food Services	419,738	445,855
Student Activities	220,085	343,911
Interest Expense	4,959	6,581
Depreciation Expense	<u>192,579</u>	<u>248,247</u>
Total Expenditures	<u>8,838,305</u>	<u>9,725,884</u>
 Change in Net Position	2,331,124	2,098,244
 Net Position - Beginning	(11,031,148)	(13,129,392)
Restatement for July 1, 2017, OPEB Liabilities	(342,000)	-
Net Position - Beginning, as Restated	<u>(11,373,148)</u>	<u>(13,129,392)</u>
 Net Position - Ending	<u>\$ (9,042,024)</u>	<u>\$ (11,031,148)</u>

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

Government Fund

The focus of the School's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

The School's governmental fund, (the General Fund), reported an ending fund balance of \$1,783,013. For the year ended June 30, 2018, the School's revenues \$11,169,429 exceeded expenditures \$10,763,434 by \$405,995.

General Fund Budgetary Highlights

Actual revenues were less than budgeted revenue by \$116,464 due to less than budgeted local and other grants and contributions, offset by higher than budgeted federal sources and other local sources. Actual expenditures were less than budgeted expenditures by \$665,754 due to less than expected instruction, support, and noninstructional services expenditures.

Capital Asset

As of June 30, 2018, the School's investment in capital assets for its governmental activities totaled \$617,834 (net of accumulated depreciation and related debt). This investment in capital assets includes leasehold improvements, furniture and fixtures and equipment.

Major capital asset purchases during the period included the following:

- Capital expenditures of \$108,115 for furniture
- Capital expenditures of \$20,070 for equipment
- Capital expenditures of \$8,870 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, 2018, the School has long-term debt of \$84,563 for capital lease obligations.

Economic Factors and Next Year's Budgets and Rates

The School's primary source of revenue, per pupil funding from School District of Philadelphia, is expected to increase from \$8,523 to \$9,099 per regular education student and increase from \$26,489 to \$29,300 per special education student.

Contacting the School's Financial Management

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

FREDERICK DOUGLASS MASTERY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2018
(WITH COMPARATIVE TOTALS AT JUNE 30, 2017)

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,624,282	\$ 2,698,450
Federal Subsidies Receivable	404,665	204,613
Other Receivables	41,622	53,304
Prepaid Expenses	16,757	94,029
Total Current Assets	3,087,326	3,050,396
CAPITAL ASSETS, NET		
Total Assets	702,397	757,921
DEFERRED OUTFLOWS		
Deferred Outflows from Pensions - See Note 8	688,402	1,201,073
Deferred Outflows from OPEB - See Note 9	9,000	-
Total Deferred Outflows	697,402	1,201,073
LIABILITIES		
CURRENT LIABILITIES		
Capital Lease Obligation - Current Maturities	36,463	34,761
Accounts Payable	227,123	588,467
Accrued Expenses	715,495	854,942
Other Liabilities	360,928	229,845
Due to Other Governmental Entities	767	124
Total Current Liabilities	1,340,776	1,708,139
LONG-TERM LIABILITIES		
Capital Lease Obligation - Net of Current Portion	48,100	84,563
Net OPEB Liability	218,000	-
Net Pension Liability	5,285,000	8,126,225
Total Long-Term Liabilities	5,551,100	8,210,788
Total Liabilities	6,891,876	9,918,927
DEFERRED INFLOWS		
Deferred Outflows from Pensions - See Note 8	6,521,416	6,121,611
Deferred Outflows from OPEB - See Note 9	115,857	-
Total Deferred Outflows	6,637,273	6,121,611
NET POSITION		
Net Investment in Capital Assets	617,834	638,597
Unrestricted	(9,659,858)	(11,669,745)
Total Net Position	\$ (9,042,024)	\$ (11,031,148)

See accompanying Notes to Financial Statements.

FREDERICK DOUGLASS MASTERY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

Functions	Expenses	Program Revenues Operating Grants and Contributions	2018	2017
			Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
			Total Governmental Activities	Total Governmental Activities
Governmental Activities:				
Instruction	\$ 2,650,703	\$ 1,082,554	\$ (1,568,149)	\$ (2,600,717)
Special Education	2,856,660	145,689	(2,710,971)	(2,057,656)
Student Support Services	(645,488)	-	645,488	(151,125)
Instruction Support Services	925,180	-	(925,180)	(455,966)
Administration Support	1,300,338	-	(1,300,338)	(1,333,695)
Pupil Health	65,580	-	(65,580)	(64,234)
Business Support	71,477	-	(71,477)	(62,010)
Operations and Maintenance	704,613	-	(704,613)	(599,504)
Other Support Services	71,881	-	(71,881)	(70,116)
Food Services	419,738	454,440	34,702	35,853
Student Activities	220,085	-	(220,085)	(343,911)
Interest Expense	4,959	-	(4,959)	(6,581)
Depreciation Expense	192,579	-	(192,579)	(248,247)
Total	\$ 8,838,305	\$ 1,682,683	(7,155,622)	(7,957,909)
General Revenues:				
Local Educational Agencies			9,128,054	8,974,565
State Grants and Reimbursements			80,001	80,664
Other Grants and Contributions			96,344	662,276
Other Local Sources			182,347	338,648
Total General Revenues			9,486,746	10,056,153
Change in Net Position			2,331,124	2,098,244
Net Position - Beginning of Year			(11,031,148)	(13,129,392)
Restatement for July 1, 2017, OPEB Liabilities			(342,000)	-
Net Position - Beginning of Year, as Restated			(11,373,148)	(13,129,392)
Net Position - End of Year			\$ (9,042,024)	\$ (11,031,148)

See accompanying Notes to Financial Statements.

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

	2018	2017
	General	General
	Fund	Fund
ASSETS		
Cash	\$ 2,624,282	\$ 2,698,450
Federal Subsidies Receivable	404,665	204,613
Other Receivables	41,622	53,304
Prepaid Expenses	16,757	94,029
Total Assets	\$ 3,087,326	\$ 3,050,396
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	\$ 227,123	\$ 588,467
Accrued Expenses	715,495	854,942
Other Liabilities	360,928	229,845
Due to Other Governmental Entities	767	124
Total Liabilities	1,304,313	1,673,378
FUND BALANCE		
Nonspendable:		
Prepaid Expenses	16,757	94,029
Committed to:		
Future Budget Deficits	1,250,000	1,000,000
Facilities Reserves	500,000	250,000
Unassigned	16,256	32,989
Total Fund Balance	1,783,013	1,377,018
Total Liabilities and Fund Balance	\$ 3,087,326	\$ 3,050,396

See accompanying Notes to Financial Statements.

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

Total Fund Balance for Governmental Funds \$ 1,783,013

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 702,397

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

Balances at year-end are: (84,563)

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 (11,118,014)
OPEB (324,857)

Total Net Position of Governmental Activities \$ (9,042,024)

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

	<u>2018</u>	<u>2017</u>
	General Fund	General Fund
REVENUES		
Local Educational Agencies	\$ 9,128,054	\$ 8,974,565
State Sources	97,449	100,006
Federal Sources	1,665,235	1,748,634
Other Grants and Contributions	96,344	662,275
Other Local Sources	182,347	338,648
Total Revenues	<u>11,169,429</u>	<u>11,824,128</u>
EXPENDITURES		
Instruction	6,869,872	6,840,826
Support Services	3,252,981	3,199,708
Noninstructional Services	640,581	805,750
Total Expenditures	<u>10,763,434</u>	<u>10,846,284</u>
NET CHANGE IN FUND BALANCE	405,995	977,844
Fund Balance - Beginning of Year	<u>1,377,018</u>	<u>399,174</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 1,783,013</u></u>	<u><u>\$ 1,377,018</u></u>

See accompanying Notes to Financial Statements.

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

Net Change in Fund Balance — Total Governmental Funds \$ 405,995

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	137,055
Depreciation Expense	(192,579)

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	1,928,750
Change in OPEB Expense	17,143

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

Capital Lease Obligations	<u>34,761</u>
---------------------------	---------------

Change in Net Position of Governmental Activities \$ 2,331,125

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

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The Frederick Douglass Mastery Charter School (the School) was formed as a Pennsylvania nonprofit corporation to operate in accordance with Pennsylvania Act 22 of 1997. The initial charter was granted by the Commonwealth of Pennsylvania in April 2010. The current charter is for a five-year term from July 1, 2015 to June 30, 2020. The charter school was formed as part of the School District of Philadelphia – School Reform Commission Renaissance Schools Initiative for the education, operation, and management of the Frederick Douglass Elementary School. During the year ended June 30, 2018, the School served approximately 725 students in grades kindergarten through eighth.

Basis of Presentation

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

Comparative Financial Information

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

Government-Wide and Fund Financial Statements

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

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

FREDERICK DOUGLASS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

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

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

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.

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

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

Method of Accounting (Continued)

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.”

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

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

Budgets and Budgetary Accounting

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

The budgetary comparison schedule presents both the original and the final appropriated budgets for the reporting period. The School only has a general fund budget; an original budget was filed and accepted by the Labor, Education, and Community Services Comptroller’s Office in June 2017. An amended budget was approved by the board of trustees in January 2018. The budget is required supplementary information.

Use of Estimates

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

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

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

Concentration of Credit Risk

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

Significant Accounting Estimates — Self-Insured Claims

As of July 1, 2011, the Mastery Charter Schools and the Network Support Team (the Schools) adopted the self-funded benefit payment plan (the Plan). The Mastery Charter High School is the Plan Sponsor for the Plan. The Plan covers eligible employees/members and dependents of the Schools (current and future schools) as defined in the agreement. The Schools are primarily self-insured, up to certain limits, for employee group health claims. The Plan contains stop-loss insurance, which will reimburse the Plan for amounts of paid claims in excess of \$150,000 on any individual covered by the Plan in the policy year ending June 30, 2018. The stop-loss insurance provides \$1,000,000 of coverage in addition to our aggregate annual claims limit of \$14,960,369 for the fiscal year ending June 30, 2018. The annual claims limit is based on the average enrollment of 1,253 covered employees, but is ultimately derived based on the actual covered employees times a monthly claims factor of \$995, for each month of the policy period.

During the year ended June 30, 2018, each school paid premiums to Mastery Charter High School based on 1) previous year's claims and premiums experience, 2) actual claims for the year ended June 30, 2018, and 3) the estimated claims incurred but not reported. Such estimates were provided by the School's benefits consultant. A self-insured claims liability for all schools for unpaid claims and the associated claim expenses, including an estimated amount for incurred but not reported losses, is reflected in the statement of net position as an accrued liability.

The Plan liability as of June 30, 2018 is \$1,235,000, and is included on the Mastery Charter High School's financial statements. Total expense under the program was approximately \$13,331,000, which includes Frederick Douglass Mastery Charter School's portion of \$592,375 for the year ended June 30, 2018.

Cash

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

Accounts Receivable

Accounts receivable primarily consist of amounts due from the Pennsylvania Department of Education for federal, state, and local subsidy programs. Accounts receivable are stated at the amount management expects to collect from outstanding balances. As of June 30, 2018, no allowance for doubtful accounts was deemed warranted based on historical experience.

Prepaid Expenses

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

FREDERICK DOUGLASS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Capital Assets

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows resources to pensions, and pension expense, information about the fiduciary net position of the Public School Employees' Retirement System (PSERS or the System) and additions to/deductions from PSERS' fiduciary net position have been determined on the same basis as they are 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.

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).

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

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

Pensions (Continued)

Benefits Provided (Continued)

To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending upon membership class, or the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after 10 years of service.

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

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

Contributions

Member Contributions:

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

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

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

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

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

Pensions (Continued)

Contributions (Continued)

Member Contributions (Continued):

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

Employer Contributions:

The employers contractually required contribution rate for fiscal year ended June 30, 2018 was 29.20% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the employer were \$330,000 for the year ended June 30, 2018.

Other Postemployment Benefits

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

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

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

Other Postemployment Benefits (Continued)

General Information about the Health Insurance Premium Assistance Program

Health Insurance Premium Assistance Program

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

Premium Assistance Eligibility Criteria

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

- Have 24½ or more years of service, or
- Are a disability retiree, or
- Have 15 or more years of service and retired after reaching superannuation age, and
- Participate in the HOP or employer-sponsored health insurance program.

Benefits Provided

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

Employer Contributions

The School's contractually required contribution rate for the fiscal year ended June 30, 2018 was 0.83% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the School were \$9,000 for the year ended June 30, 2018.

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

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

Income Tax Status

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

NOTE 2 CASH

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2018, \$2,223,910 of the School's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$ 2,223,910
Total Custodial Credit Risk	<u>\$ 2,223,910</u>

Reconciliation to the financial statements:

Custodial Credit Risk from Above	\$ 2,223,910
Plus: Insured Amount	500,000
Less: Outstanding Checks	(100,628)
Plus: Petty Cash	<u>1,000</u>
Total Cash Per the Financial Statements	<u>\$ 2,624,282</u>

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

NOTE 3 CAPITAL ASSETS

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

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

Capital asset activity for the period is summarized below:

Description	Balance July 1, 2017	Deletions	Additions	Balance June 30, 2018
Equipment	\$ 701,852	\$ -	\$ 20,070	\$ 721,922
Furniture	318,123	-	108,115	426,238
Leasehold Improvements	1,064,058	-	8,870	1,072,928
Capital Lease Equipment	176,297	-	-	176,297
Software	6,040	-	-	6,040
Total	2,266,370	-	137,055	2,403,425
Less: Accumulated				
Depreciation	1,508,449	-	192,579	1,701,028
Capital Assets, Net	<u>\$ 757,921</u>	<u>\$ -</u>	<u>\$ (55,524)</u>	<u>\$ 702,397</u>

NOTE 4 CAPITAL LEASE OBLIGATIONS

The School leases several copiers under capital leases that expire September 2020. As of June 30, 2018, the leased copiers are reflected at a cost of \$176,297 and related accumulated depreciation of \$105,778. The leases require monthly payments of principal and interest amounting to \$3,310, at an interest rate of 4.79% per annum.

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

<u>Year Ending June 30.</u>	<u>Amount</u>
2019	\$ 39,720
2020	39,720
2021	9,930
Total	<u>89,370</u>
Less: Amount Representing Interest	4,807
Present Value of Minimum Lease Payments	<u>\$ 84,563</u>

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

NOTE 4 CAPITAL LEASE OBLIGATIONS (CONTINUED)

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Lease Obligation	<u>\$ 119,324</u>	<u>\$ -</u>	<u>\$ 34,761</u>	<u>\$ 84,563</u>

NOTE 5 REVENUE

Charter schools are funded by the local public school district in which each student resides. The rate per student is determined annually and is based on the budgeted total expenditure per average daily membership of the prior school year for each school district. The majority of the students for the School reside in Philadelphia. For the period ended June 30, 2018, the rate for the School District of Philadelphia was \$8,523 per year for regular education students plus additional funding for special education students. The annual rate is paid monthly by the School District of Philadelphia and is prorated if a student enters or leaves during the year. Total revenue from these sources was \$9,128,054 for the period ended June 30, 2018.

NOTE 6 GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAMS

The School participates in numerous state and federal grant and reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and reimbursement programs for social security taxes, retirement expense, facility lease expense, and health services are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants and reimbursement programs, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

NOTE 7 RETIREMENT PLAN

The School is part of the Mastery Charter School 403(b) Retirement Plan, a multiple employer defined contribution plan under Section 403(b) of the Internal Revenue Code, which employees of the School can elect to contribute. Employees, 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. Employees beginning after August 2012 are required to participate in the 403(b) Plan; if the employee was previously enrolled in the PSERS plan and has already vested, the employee may opt to continue PSERS instead of the 403(b) plan. The School's contribution to the Plan for the period ended June 30, 2018 and 2017 were \$180,048 and \$177,174, respectively.

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

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

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

At June 30, 2018, the School reported a liability of \$5,285,000 for its proportionate share of net pension liability for the PSERS Plan. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net pension liability was calculated utilizing the School's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the School's proportion was .0107%, which was a decrease of .0057% from its proportion measured as of June 30, 2016.

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

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

For the year ended June 30, 2018, the School recognized pension credit of (\$1,626,539). At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 55,200	\$ (32,000)
Changes in Assumptions	144,000	-
Net Difference Between Projected and Actual Investment Earnings	122,000	-
Changes in Proportions	-	(6,489,416)
Difference Between Employer Contributions and Proportionate Share of Total Contributions	37,202	-
Contributions Subsequent to the Measurement Date	<u>330,000</u>	<u>-</u>
Total	<u>\$ 688,402</u>	<u>\$ (6,521,416)</u>

The amount of \$330,000 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ (2,128,338)
2020	(1,749,751)
2021	(1,692,763)
2022	<u>(592,162)</u>
Total	<u>\$ (6,163,014)</u>

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

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

Actuarial Assumptions

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

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

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

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

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

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

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 %	5.1 %
Fixed Income	36 %	2.6 %
Commodities	8 %	3.0 %
Absolute Return	10 %	3.4 %
Risk Parity	10 %	3.8 %
Infrastructure/MLPs	8 %	4.8 %
Real Estate	10 %	3.6 %
Alternative Investments	15 %	6.2 %
Cash	3 %	0.6 %
Financing (LIBOR)	(20)%	1.1 %
Total	<u>100 %</u>	

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

Discount Rate

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

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

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

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

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

	1% Decrease 6.25%	Current Discount Rate 7.25%	1% Increase 8.25%
Employer's Proportionate Share of the Net Pension Liability	\$ 6,505	\$ 5,285	\$ 4,245

Pension Plan Fiduciary Net Position

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

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

At June 30, 2018, the School reported a liability of \$218,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the System's total OPEB liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net OPEB liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the School's proportion was 0.0107%, which was a decrease of 0.0057% from its proportion measured as of June 30, 2016.

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

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

For the year ended June 30, 2018, the School recognized OPEB credit of \$(17,143). At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	\$ -	\$ (10,000)
Changes in Proportions	-	(105,000)
Difference Between Employer Contributions and Proportionate Share of Total Contributions	-	(857)
Contributions Subsequent to the Measurement Date	9,000	-
Total	<u>\$ 9,000</u>	<u>\$ (115,857)</u>

\$9,000 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ (19,810)
2020	(19,810)
2021	(19,810)
2022	(19,810)
2023	(19,810)
Thereafter	(16,807)
Total	<u>\$ (115,857)</u>

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

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

Actuarial Assumptions and Other Inputs

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

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

The following assumptions were used to determine the contribution rate:

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

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

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

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

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

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

Discount Rate

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

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

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

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

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

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

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

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Healthcare Cost Trend Rate (in Thousands)		
1% Decrease (between 4% and 7%)	Health Care Cost Trend Rates (between 5% and 8%)	1% Increase (between 6% and 9%)
\$ 218	\$ 218	\$ 218

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

Sensitivity of the Premium Assistance Net OPEB Liability to Changes in the Discount Rate (in Thousands)		
1% Decrease 2.13%	Correct Rate 3.13%	1% Increase 4.13%
\$ 248	\$ 218	\$ 193

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.

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

NOTE 10 RISK MANAGEMENT

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

NOTE 11 MANAGEMENT AGREEMENT

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

As of July 1, 2017, the School entered into a one-year agreement with the Mastery Charter High School to provide educational, administrative, and financial services for the School by the NST. As a result of common usage of the NST, the Mastery Charter Schools are considered related parties (see Note 12). The NST management fee is 8.5% of local school funds plus reimbursement for any costs NST incurs in providing the educational, administrative, and financial services. Unless specified notice is given, the agreement renews each year during the term of the School's charter. The total fee was \$775,885 for the period ending June 30, 2018.

As of July 1, 2017, the School entered into a one-year technology and equipment agreement with Mastery Charter High School. The fee was \$78,769 for the fiscal year.

NOTE 12 RELATED PARTY TRANSACTIONS

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

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

	Due from (Receivable)	Due to (Payable)
Due to/from Other Governmental Entities (all Schools)	\$ -	\$ 767

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

NOTE 13 CHANGE IN ACCOUNTING PRINCIPLE

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

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

	<u>Governmental Activities</u>
Net Position, Beginning of Year, as Previously Stated	\$ (11,031,148)
Balance of the Net OPEB Liability and Related Deferred Outflows of Resources	<u>(342,000)</u>
Net Position, Beginning of Year, as Restated	<u>\$ (11,373,148)</u>

NOTE 14 RECENT ACCOUNTING PRONOUNCEMENTS

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. Statement 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The provisions in Statement No.83 are effective for reporting periods beginning after June 15, 2018. The School is assessing if Statement No. 83 will have any impact on its financial statements.

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

FREDERICK DOUGLASS MASTERY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions in Statement No.85 are effective for reporting periods beginning after June 15, 2017. The School adopted Statement No. 85 and no financial statement changes were noted.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions in Statement No.87 are effective for reporting periods beginning after December 15, 2019. The School is assessing if Statement No. 87 will have any impact on its financial statements.

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

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

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

NOTE 14 RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources	\$ 9,328,676	\$ 9,279,000	\$ 9,128,054	\$ (150,946)
State Sources	39,056	98,001	97,449	(552)
Federal Sources	1,122,400	1,408,892	1,665,235	256,343
Other Grants and Contributions	-	445,000	96,344	(348,656)
Other Local Sources	33,000	55,000	182,347	127,347
Total Revenues	10,523,132	11,285,893	11,169,429	(116,464)
EXPENDITURES				
Instruction	6,881,342	7,090,188	6,869,872	(220,316)
Support Services	3,491,256	3,328,000	3,252,981	(75,019)
Noninstructional Services	433,000	1,011,000	640,581	(370,419)
Total Expenditures	10,805,598	11,429,188	10,763,434	(665,754)
NET CHANGE IN FUND BALANCE	\$ (282,466)	\$ (143,295)	405,995	\$ 549,290
Fund Balance - Beginning of Year			1,377,018	
FUND BALANCE - END OF YEAR			\$ 1,783,013	

**FREDERICK DOUGLASS MASTERY CHARTER 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	0.03330%	\$ 13,181	\$ 4,247	310%	57.2%
2015/16	0.03120%	\$ 13,514	\$ 4,014	337%	54.4%
2016/17	0.01640%	\$ 8,126	\$ 2,120	383%	50.1%
2017/18	0.01070%	\$ 5,285	\$ 1,423	371%	51.8%

PSERS Schedule of Contributions (Unaudited)
(in Thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percent of Covered Employee Payroll
2014/15	\$ 759	\$ 759	\$ -	\$ 4,247	17.9%
2015/16	\$ 617	\$ 617	\$ -	\$ 4,014	15.4%
2016/17	\$ 410	\$ 410	\$ -	\$ 2,120	19.3%
2017/18	\$ 330	\$ 330	\$ -	\$ 1,423	23.2%

**FREDERICK DOUGLASS MASTERY CHARTER 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	0.01070%	\$ 218	\$ 1,423	15%	5.73%

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

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS in FY	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percent of Covered Employee Payroll
2017/18	\$ 9	\$ 9	\$ -	\$ 1,423	0.6%

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

Federal Grantor Pass-Through Grantor Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Grant Period Beginning/ Ending Date	Grant Amount	Amount (Deferred) Revenue at July 1, 2017	Total Received for the Year	Federal Expenditures	Accrued (Deferred) Revenue at June 30, 2018
<u>U.S. Department of Education</u>									
Pass-Through Pennsylvania Department of Education:									
Title I - Improving Basic Programs	I	84.010	013-181093	8/21/17-9/30/18	\$ 638,879	\$ -	\$ 511,055	\$ 638,879	\$ 127,824
Title I - School Improvement Grant Program Set Aside	I	84.010	042-171093	6/8/17-9/30/18	75,630	-	75,630	75,630	-
Title II - Improving Teacher Quality	I	84.367	020 181093	8/21/17-9/30/18	56,255	-	52,454	56,255	3,801
Title IV - Student Support and Academic Enrichment	I	84.424	144-180903	8/21/17-9/30/18	14,716	-	13,665	14,716	1,051
Twenty-First Century Community Learning Centers		84.287	4100068129	10/1/16 - 9/30/17	381,400	114,372	193,199	78,827	-
Twenty-First Century Community Learning Centers	I	84.287	4100068129	10/1/17-9/30/18	381,400	-	166,978	218,249	51,271
Pass-Through School District of Philadelphia:									
Individual with Disabilities Education Act Part B	I	84.027	N/A	7/1/17-6/30/18	145,687	-	-	145,687	145,687
Total U.S. Department of Education						<u>114,372</u>	<u>1,012,981</u>	<u>1,228,243</u>	<u>329,634</u>
<u>U.S. Department of Agriculture</u>									
Pass-Through Pennsylvania Department of Education:									
Child Nutrition Cluster:									
Food and Nutrition Services - School Breakfast Program	I	10.553	N/A	7/1/16 - 6/30/17	104,689	20,716	20,716	-	-
Food and Nutrition Services - School Lunch Program	I	10.555	N/A	7/1/16 - 6/30/17	337,674	64,986	64,986	-	-
Food and Nutrition Services - School Breakfast Program	I	10.553	N/A	7/1/17-6/30/18	96,884	-	81,431	96,884	15,453
Food and Nutrition Services - School Lunch Program	I	10.555	N/A	7/1/17-6/30/18	311,140	-	255,394	311,140	55,746
Food and Nutrition Services - School Lunch Program - Donated Commodities	I	10.555	N/A	7/1/17-6/30/18	28,968	-	28,968	28,968	-
Total U.S. Department of Agriculture and Child Nutrition Cluster						<u>85,702</u>	<u>451,495</u>	<u>436,992</u>	<u>71,199</u>
<u>U.S. Department of Health and Human Services</u>									
Pass-Through Pennsylvania Department of Public Welfare:									
Medical Assistance	I	93.778	044 007694	7/1/14 -6/30/17	-	794	-	-	794
Total U.S. Department of Health and Human Services						<u>794</u>	<u>-</u>	<u>-</u>	<u>794</u>
Total Expenditures of Federal Awards						<u>\$ 200,868</u>	<u>\$ 1,464,476</u>	<u>\$ 1,665,235</u>	<u>\$ 401,627</u>

D - Direct Funding
I - Indirect Funding

Note: There were no awards passed through to subrecipients

See accompanying Notes to Schedule of Expenditures of Federal Awards.

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

NOTE 1 GENERAL INFORMATION

The accompanying schedule of expenditures of federal awards presents the activities of the federal financial assistance programs of Frederick Douglass Mastery Charter 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, and does not, present either the balance sheet or revenue, expenditures, and changes in fund balances of governmental funds. The financial activity for the aforementioned awards is reported in the School's statement of revenues and expenditures, and changes in fund balance — governmental funds.

NOTE 4 INDIRECT COST RATE

Frederick Douglass Mastery Charter 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
Frederick Douglass Mastery Charter 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 and the general fund of Frederick Douglass Mastery Charter School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Frederick Douglass Mastery Charter School's basic financial statements, and have issued our report thereon dated November 15, 2018.

Internal Control Over Financial Reporting

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 15, 2018



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

Board of Trustees
Frederick Douglass Mastery Charter School
Philadelphia, Pennsylvania

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

Management of Frederick Douglass Mastery Charter 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 Frederick Douglass Mastery Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Frederick Douglass Mastery Charter 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
November 15, 2018

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

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal Awards

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

Identification of Major Federal Programs

CFDA Number(s)

84.010

Name of Federal Program or Cluster

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

84.287

Pass-Through Pennsylvania Department of Education — Twenty-First Century Community Learning Centers

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

\$ 750,000

Auditee qualified as low-risk auditee?

 X yes _____no

FREDERICK DOUGLASS MASTERY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Section II – Financial Statement Findings

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

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

Section IV – Prior Audit Findings

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



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