

# **MARIANA BRACETTI ACADEMY CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**AND OTHER SUPPLEMENTARY INFORMATION**

**JUNE 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Mariana Bracetti Academy Charter School  
Philadelphia, Pennsylvania

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Mariana Bracetti Academy Charter School (a nonprofit organization) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Mariana Bracetti Academy Charter School'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.

### ***Auditor's 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. The financial statements of Brazo De Oro Children's Foundation were not audited in accordance with *Government Auditing Standards*. 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 auditor's 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, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Mariana Bracetti Academy Charter School as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Notes 1 and 17 to the financial statements, in the year ended June 30, 2018, the Mariana Bracetti Academy Charter School adopted new accounting guidance as required by Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, schedule of proportionate share of the net pension liability and contributions, schedule of proportionate share of the net OPEB liability and contributions, and the budgetary comparison information on pages 4-10 and pages 54-56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mariana Bracetti Academy Charter School's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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 December 21, 2018 on our consideration of Mariana Bracetti Academy 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Mariana Bracetti Academy Charter School's internal control over financial reporting and compliance.



Certified Public Accountants

Newtown, Pennsylvania  
December 21, 2018

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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The Board of Trustees of the Mariana Bracetti Academy 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 fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

**Financial Highlights**

- At June 30, 2018, the School reported an ending governmental fund balance of \$3,393,178, representing an increase of \$311,918 from June 30, 2017.
- Total general fund revenues for the fiscal year ended June 30, 2018 were \$15,492,292, representing an increase of \$50,037 from June 30, 2017.
- The School's general fund cash balance as of June 30, 2018 was \$2,790,360, representing a cash increase of \$480,629 from June 30, 2017.
- The School was required to adopt GASB 75 relative to its participation in the Commonwealth of Pennsylvania's Public Employees' Retirement System's (PSERS) Health Insurance Premium Assistance Program (Premium Assistance). PSERS Premium Assistance is a governmental cost sharing, multiple-employer OPEB plan for all eligible retirees who qualify and elect to participate. The Commonwealth controls all aspects of the plan including assets and administration. The School makes contributions as defined by the Commonwealth. Historically, the School has recorded its contributions as defined by the Commonwealth. With the adoption of GASB 75, the School is required to record a liability for its proportionate share of the OPEB plan and expenses related to the performance of the plan administration against its goals. The School recorded an adjustment to net assets of \$869,800 between the governmental and business-type activities for the net liability as of June 30, 2017 as well as the required contributions of \$29,200. All public schools in Pennsylvania who participate in PSERS Premium Assistance are being required to record a proportionate share of the \$2,037,412,000 liability in their financial statements.

**Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The financial statements include the Brazo De Oro Children's Foundation ("BDO"). The School's basic financial statements consist of three components 1) government-wide financial statements 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the School, including the schedule of proportionate share of the net pension liability and contributions, the schedule of proportionate share of the net OPEB liability and contributions, budgetary information, and the single audit of the School's federal awards.

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

***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 government-wide statements provide short and long-term information about the School's financial status as a whole.

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

The *statement of activities* presents information showing how the School's net position (deficit) 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. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. expenditures accrued in one fiscal year but paid in subsequent years, and depreciation and amortization).

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. The School's function is to provide an alternative educational opportunity for elementary and secondary school children.

In the statement of net position and the statement of activities, the School is divided into two kinds of activities: (1) governmental activities, where most of the School's basic services are reported; and (2) business-type activities, where the School offers students a free breakfast and lunch.

***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 two fund types, governmental fund and the proprietary fund.

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

***Fund Financial Statements (Continued)***

Most of the School's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. 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.

When the School offers students free breakfast and lunch, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the School's enterprise fund (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

***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.

***Supplementary Information***

The schedule of proportionate share of the net pension liability and contributions is presented for purposes of additional analysis and is prepared in conformity with GAAP.

The schedule of proportionate share of the net OPEB liability and contributions is presented for purposes of additional analysis and is prepared in conformity with GAAP.

The governmental fund budgetary comparison schedule is presented for purposes of additional analysis and is prepared using a non-GAAP basis for state reporting requirements.

***Single Audit Requirements***

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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

***Government-Wide Financial Analysis***

Management has adopted Governmental Accounting Standards Board ("GASB") Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which requires a comparative analysis of current and prior periods. This includes the School activities and does not include the discretely reported component unit.

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Other assets	\$ 5,414,596	\$ 5,313,937
Capital assets, net	<u>413,916</u>	<u>454,503</u>
<b>TOTAL ASSETS</b>	<u>5,828,512</u>	<u>5,768,440</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>2,489,292</u>	<u>3,341,488</u>
<b>LIABILITIES</b>		
Other liabilities	1,137,156	1,368,241
Long-term liabilities	<u>20,911,715</u>	<u>20,889,904</u>
<b>TOTAL LIABILITIES</b>	<u>22,048,871</u>	<u>22,258,145</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>2,699,512</u>	<u>3,041,820</u>
<b>NET POSITION (DEFICIT)</b>		
Invested in capital assets	413,916	454,503
Unrestricted	<u>(16,844,495)</u>	<u>(16,644,540)</u>
<b>TOTAL NET POSITION (DEFICIT)</b>	<u>\$ (16,430,579)</u>	<u>\$ (16,190,037)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows exceeded assets and deferred outflows by \$16,430,579 as of June 30, 2018.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

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

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

The School's revenues are predominately the School District of Philadelphia's funds based on the student enrollment. For the year ended June 30, 2018, the School's revenues of \$16,226,808 exceeded expenditures of \$15,597,550 by \$629,258.

	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>		
Local sources	\$ 13,725,602	\$ 13,664,516
State sources	308,722	312,606
Federal sources	1,308,994	1,155,202
Food services	734,516	759,768
Other revenue	<u>148,974</u>	<u>309,931</u>
<b>TOTAL REVENUES</b>	<u>16,226,808</u>	<u>16,202,023</u>
<b>EXPENDITURES</b>		
Instruction	8,219,498	8,489,836
Support services	6,494,397	6,744,934
Non-instructional services	118,735	143,635
Food services	<u>764,920</u>	<u>783,691</u>
<b>TOTAL EXPENDITURES</b>	<u>15,597,550</u>	<u>16,162,096</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	629,258	39,927
<b>NET POSITION (DEFICIT), BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b>	(16,190,037)	(16,229,964)
<b>ADJUSTMENT TO BEGINNING NET POSITION (NOTE 17)</b>	<u>(869,800)</u>	<u>-</u>
<b>NET POSITION (DEFICIT), END OF YEAR</b>	<u>\$ (16,430,579)</u>	<u>\$ (16,190,037)</u>

\*Due to implementation of accounting pronouncements GASB 75, the School was required to restate beginning net position and elected not to restate fiscal year 2017 balances. See Note 17.

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

***Governmental Fund***

The focus of the School's governmental fund (the general 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 general fund, which is the primary operating fund at the School, reported an ending fund balance of \$3,393,178 at June 30, 2018.

***General Fund Budgetary Highlights***

Over the course of the year, the School revised the annual operating budget several times. These budget amendments consisted of changes made within budgetary line items for changes in the school-based needs for programs, supplies and equipment. There were no formal budget amendments made that were required to be submitted to the State of Pennsylvania.

**Capital Asset and Debt Administration**

***Capital Assets***

As of June 30, 2018, the School's investment in capital assets for its governmental activities and business-type activities totaled \$401,372 and \$12,544 (net of accumulated depreciation), respectively. This investment in capital assets includes leasehold improvements, classroom and office furniture and computer equipment.

Major capital asset purchases during the year included the following:

- Capital expenditures of \$25,634 for leasehold improvements
- Capital expenditures of \$107,040 for equipment

Additional information on the School's capital assets can be found in Note 5 of this report.

***Long-Term Debt***

At June 30, 2018, the School had no long-term debt.

**Economic Factors and Next Year's Budgets and Rates**

The School's primary source of revenue, the per student subsidy provided by the School District of Philadelphia, will increase by 8.26% for fiscal year 2018-2019, due to an increase in the regular and special education per pupil subsidy rate. Additionally, the required PSERS employer contribution rate, which the School pays for both pension and healthcare insurance premium assistance, will increase by 2.64% for the fiscal year 2018-2019.

**Future Events That Will Financially Impact the School**

The School does not foresee any future events at this time that will financially impact the School.

**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: Chief Executive Officer, Mariana Bracetti Academy Charter School, 1840 Torresdale Avenue, Philadelphia, PA 19124.

**Component Unit**

Brazo De Oro Children's Foundation ("BDO") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that BDO is legally separate from the School. Complete financial statements of Brazo De Oro Children's Foundation can be obtained at 601 Route 73 North, Suite 302, Marlton, NJ 08053-3408.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF NET POSITION (DEFICIT)  
JUNE 30, 2018**

	Primary Government			Component Unit
	Governmental	Business-Type	Totals	
	Activities	Activities		
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 2,790,360	\$ -	\$ 2,790,360	\$ 91,215
State subsidies receivable	205,951	1,065	207,016	-
Federal subsidies receivable	354,626	26,582	381,208	-
Local subsidies receivable	2,356	-	2,356	-
Other receivables	25,101	-	25,101	-
Prepaid expenses	<u>94,079</u>	<u>230</u>	<u>94,309</u>	<u>-</u>
<b>TOTAL CURRENT ASSETS</b>	<b>3,472,473</b>	<b>27,877</b>	<b>3,500,350</b>	<b>91,215</b>
Capital assets, net	401,372	12,544	413,916	19,309,432
Accrued rental asset	-	-	-	957,715
Due from component unit	1,914,246	-	1,914,246	-
Escrow deposits	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,580,545</u>
<b>TOTAL ASSETS</b>	<b><u>5,788,091</u></b>	<b><u>40,421</u></b>	<b><u>5,828,512</u></b>	<b><u>22,938,907</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions	2,447,123	27,858	2,474,981	-
Related to other postemployment benefits	<u>14,168</u>	<u>143</u>	<u>14,311</u>	<u>-</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>2,461,291</u></b>	<b><u>28,001</u></b>	<b><u>2,489,292</u></b>	<b><u>-</u></b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued expenses	268,761	74,635	343,396	-
Accrued salaries and benefits	756,598	-	756,598	-
Bonds payable, current portion	-	-	-	350,000
Refundable advances	37,162	-	37,162	-
Internal Balances	<u>23,897</u>	<u>(23,897)</u>	<u>-</u>	<u>-</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,086,418</b>	<b>50,738</b>	<b>1,137,156</b>	<b>350,000</b>
Bonds payable, net of current portion, unamortized issuance costs and original issue discount	-	-	-	21,741,991
Due to general fund (related party)	-	-	-	1,914,246
Accrued rental liability	957,715	-	957,715	-
Net pension liability	18,971,370	191,630	19,163,000	-
Other postemployment benefits liability	<u>783,090</u>	<u>7,910</u>	<u>791,000</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<b><u>21,798,593</u></b>	<b><u>250,278</u></b>	<b><u>22,048,871</u></b>	<b><u>24,006,237</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions	2,564,607	25,905	2,590,512	-
Related to other postemployment benefits	<u>107,910</u>	<u>1,090</u>	<u>109,000</u>	<u>-</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>2,672,517</u></b>	<b><u>26,995</u></b>	<b><u>2,699,512</u></b>	<b><u>-</u></b>
<b>COMMITMENTS AND CONTINGENCIES (NOTES 11 &amp; 12)</b>				
<b>NET POSITION (DEFICIT)</b>				
Invested in capital assets, net of related debt	401,372	12,544	413,916	-
Unrestricted	<u>(16,623,100)</u>	<u>(221,395)</u>	<u>(16,844,495)</u>	<u>(1,067,330)</u>
<b>TOTAL NET POSITION (DEFICIT)</b>	<b><u>\$ (16,221,728)</u></b>	<b><u>\$ (208,851)</u></b>	<b><u>\$ (16,430,579)</u></b>	<b><u>\$ (1,067,330)</u></b>

See accompanying notes to the financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	Unit
							BDO
<b>GOVERNMENTAL ACTIVITIES</b>							
Instruction							
Regular instruction programs	\$ 6,037,223	\$ -	\$ 788,985	\$ (5,248,238)	\$ -	\$ (5,248,238)	\$ -
Special instruction programs	2,179,003	-	350,121	(1,828,882)	-	(1,828,882)	-
Other instructional programs	3,272	-	-	(3,272)	-	(3,272)	-
Support services							
Pupil personnel	570,494	-	240,684	(329,810)	-	(329,810)	-
Instructional staff	133,731	-	20,828	(112,903)	-	(112,903)	-
Administration	1,665,164	-	-	(1,665,164)	-	(1,665,164)	-
Pupil health	74,731	-	-	(74,731)	-	(74,731)	-
Business	440,188	-	-	(440,188)	-	(440,188)	-
Operation and maintenance of plant services	3,286,068	-	-	(3,286,068)	-	(3,286,068)	-
Central	324,021	-	-	(324,021)	-	(324,021)	-
Operation of non-instructional services							
Student activities	103,334	41,463	-	(61,871)	-	(61,871)	-
Community service	15,401	-	12,501	(2,900)	-	(2,900)	-
Total governmental activities	<u>14,832,630</u>	<u>41,463</u>	<u>1,413,119</u>	<u>(13,378,048)</u>	<u>-</u>	<u>(13,378,048)</u>	<u>-</u>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Food services	<u>764,920</u>	<u>36,419</u>	<u>672,994</u>	<u>-</u>	<u>(55,507)</u>	<u>(55,507)</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT ACTIVITIES</b>	<u>\$ 15,597,550</u>	<u>\$ 77,882</u>	<u>\$ 2,086,113</u>	<u>(13,378,048)</u>	<u>(55,507)</u>	<u>(13,433,555)</u>	<u>-</u>
<b>COMPONENT UNIT</b>							
Interest	\$ 1,760,742	\$ -	\$ -	-	-	-	(1,760,742)
Program services	<u>832,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(832,497)</u>
<b>TOTAL COMPONENT UNIT</b>	<u>\$ 2,593,239</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,593,239)</u>
<b>GENERAL REVENUES/(EXPENSES)</b>							
Local educational agencies				13,725,602	-	13,725,602	-
State reimbursements				204,597	25,103	229,700	-
Rental income				-	-	-	2,308,337
All other revenue				<u>107,511</u>	<u>-</u>	<u>107,511</u>	<u>54,587</u>
TOTAL GENERAL REVENUES/(EXPENSES)				<u>14,037,710</u>	<u>25,103</u>	<u>14,062,813</u>	<u>2,362,924</u>
CHANGE IN NET POSITION				<u>659,662</u>	<u>(30,404)</u>	<u>629,258</u>	<u>(230,315)</u>
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS PREVIOUSLY STATED				(16,222,560)	32,523	(16,190,037)	(837,015)
CUMULATIVE EFFECT OF ADOPTION OF GASB 75				(861,085)	(8,715)	(869,800)	-
RECLASSIFICATION OF NET POSITION DUE TO GASB 68				<u>202,255</u>	<u>(202,255)</u>	<u>-</u>	<u>-</u>
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS RESTATED				<u>(16,881,390)</u>	<u>(178,447)</u>	<u>(17,059,837)</u>	<u>(837,015)</u>
NET POSITION (DEFICIT), END OF YEAR				<u>\$ (16,221,728)</u>	<u>\$ (208,851)</u>	<u>\$ (16,430,579)</u>	<u>\$ (1,067,330)</u>

See accompanying notes to the financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2018**

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	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 2,790,360
State subsidies receivable	205,951
Federal subsidies receivable	354,626
Other receivables	27,457
Prepaid expenses	94,079
Due from component unit	<u>1,914,246</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,386,719</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 268,761
Accrued salaries and benefits	1,663,721
Due to proprietary fund	23,897
Refundable advances	<u>37,162</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,993,541</u></b>
<b>COMMITMENTS AND CONTINGENCIES (NOTES 11 &amp; 12)</b>	
<b>FUND BALANCE</b>	
Nonspendable	2,008,325
Committed	<u>1,384,853</u>
<b>TOTAL FUND BALANCE</b>	<b><u>3,393,178</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 5,386,719</u></b>

See accompanying notes to the financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION (DEFICIT)  
JUNE 30, 2018**

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**TOTAL FUND BALANCE - GOVERNMENTAL FUND** \$ 3,393,178

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the government fund financial statements. These assets consist of:

Leasehold improvements	579,211	
Equipment	1,294,196	
Furniture and fixtures	226,475	
Less: accumulated depreciation	<u>(1,698,510)</u>	401,372

Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consist of:

Net pension liability	(18,971,370)	
OPEB liability	(783,090)	
PSERS employer contribution payable	754,502	
PSERS benefits payable	152,621	
Accrued rental liability	<u>(957,715)</u>	(19,805,052)

Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. These consist of:

Deferred outflows of resources related to pensions	2,461,291	
Deferred inflows of resources related to pensions	<u>(2,672,517)</u>	<u>(211,226)</u>

**NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES** **\$ (16,221,728)**

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
OF GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2018**

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	<u>General Fund</u>
REVENUES	
Local sources	\$ 13,725,602
State sources	308,722
Federal sources	1,308,994
Other revenue	<u>148,974</u>
<b>TOTAL REVENUES</b>	<b><u>15,492,292</u></b>
EXPENDITURES	
Instruction	8,473,233
Support services	6,462,205
Non-instructional services	121,720
Capital outlay	<u>123,216</u>
<b>TOTAL EXPENDITURES</b>	<b><u>15,180,374</u></b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	311,918
FUND BALANCE, BEGINNING OF YEAR	<u>3,081,260</u>
FUND BALANCE, END OF YEAR	<u>\$ 3,393,178</u>

**MARIANA BRACETTI ACADEMY 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**

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**TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS** \$ 311,918

The amount reported for governmental activities in the statement of activities is 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. The effect of capitalizing the current year's capital outlays is to increase net position. 123,216

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The effect of recording the current year's depreciation is to decrease net position. (140,593)

Governmental funds report lease expenditures each period using the modified accrual basis of accounting. Thus, expenditures and fund liabilities should be recognized to the extent that amounts are payable with expendable, available financial resources. (88,811)

Governmental funds report the School's pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

School's pension contributions	1,585,700	
Cost of benefits earned net of employee contributions	<u>(1,131,768)</u>	<u>453,932</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ 659,662

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF NET POSITION – PROPRIETARY FUND  
JUNE 30, 2018**

	Enterprise Fund
	Food Service Fund
<b>ASSETS</b>	
CURRENT ASSETS	
State subsidies receivable	\$ 1,065
Federal subsidies receivable	26,582
Prepaid expenses	230
Due from general fund	<u>23,897</u>
<b>TOTAL CURRENT ASSETS</b>	<b>51,774</b>
Capital assets, net	<u>12,544</u>
<b>TOTAL ASSETS</b>	<b><u>64,318</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	27,858
Related to other postemployment benefits	<u>143</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>28,001</u></b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 92,319</u></b>
<b>LIABILITIES AND NET POSITION</b>	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	<u>\$ 74,635</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>74,635</u></b>
Net pension liability	191,630
Other postemployment benefits liability	<u>7,910</u>
<b>TOTAL LIABILITIES</b>	<b><u>274,175</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	25,905
Related to other postemployment benefits	<u>1,090</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>26,995</u></b>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	12,544
Unrestricted	<u>(221,395)</u>
<b>TOTAL NET POSITION</b>	<b><u>(208,851)</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b><u>\$ 92,319</u></b>

See accompanying notes to the financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION – PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2018**

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	Enterprise Fund
	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service	\$ 36,419
<b>TOTAL OPERATING REVENUES</b>	<u>36,419</u>
OPERATING EXPENSES	
Depreciation	32,668
Purchased services	522,494
Salaries and benefits	132,505
Equipment, supplies, and other operating expenses	<u>48,123</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>735,790</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(699,371)</u>
NONOPERATING REVENUES (EXPENSES)	
State sources	25,103
Federal sources	672,994
Interest	<u>(29,130)</u>
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>668,967</u>
CHANGE IN NET POSITION	<u>(30,404)</u>
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	32,523
CUMULATIVE EFFECT OF ADOPTION OF GASB 68 & 75	<u>(210,970)</u>
NET POSITION (DEFICIT), BEGINNING OF YEAR AS REVISED	<u>(178,447)</u>
<b>NET POSITION (DEFICIT), END OF YEAR</b>	<u>\$ (208,851)</u>

See accompanying notes to the financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF CASH FLOWS – PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2018**

	Enterprise Fund <u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Fees received	\$ 36,419
Payments for salaries and benefits	(139,111)
Payments to vendors	<u>(567,172)</u>
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b><u>(669,864)</u></b>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances from governmental fund	(65,956)
Subsidies received from federal sources	746,244
Subsidies received from state sources	<u>28,164</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b><u>708,452</u></b>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Interest paid on financing agreements	(29,130)
Purchases of capital assets	<u>(9,458)</u>
<b>NET CASH USED BY CAPITAL FINANCING ACTIVITIES</b>	<b><u>(38,588)</u></b>
<b>NET CHANGE IN CASH</b>	<b><u>-</u></b>
CASH, BEGINNING OF YEAR	<u>-</u>
CASH, END OF YEAR	<u><u>\$ -</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (699,371)
Adjustments to reconcile operating income (loss) to net cash used by operating activities	
Depreciation expense	32,668
Change in assets and liabilities	
(Increase) decrease in prepaid expenses	3,985
Increase (decrease) in accounts payable	(540)
Increase (decrease) in payroll deductions/withholding	<u>(6,606)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (669,864)</u></u>

See accompanying notes to the financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Mariana Bracetti Academy Charter School (the "School") is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997 (the "Act"), whereby a charter is granted for a four-year period and may be renewed for an additional five-year period upon expiration. The School is currently operating under a five year renewal charter, which is in place through June 30, 2019. As its mission, the School believes that all students draw upon their passion, motivation and life experience to become independent, adaptive problem solvers, powerful thinkers, effective communicators and meaningful contributors to the larger community and that the school community is committed to leveraging every resource to ensure all students are prepared for college and career success. The School is located in Philadelphia, Pennsylvania and includes grades K through 12.

Reporting Entity

The School has financial accountability and control over all activities related to the students' education. The School receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The reporting entity of the School is based upon criteria set forth by Governmental Accounting Standards Board ("GASB") Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the School. The School is not a component unit of another reporting entity. The decision to include a potential component unit in the School's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. As described below, the School has identified a component unit.

Component Unit

Brazo De Oro Children's Foundation ("BDO") is a legally separate, tax-exempt component unit of the School. BDO was organized to acquire and support the School's facilities. Although the School does not control the timing or amounts of receipts from BDO, the majority of resources and income thereon that BDO holds are restricted to activities of the School. Because these restricted resources held by BDO can only be used by, or for the benefit of the School, BDO is considered a component unit of the School and is discretely presented in the School's financial statements. Complete financial statements of Brazo De Oro Children's Foundation can be obtained at 601 Route 73 North, Suite 302, Marlton, NJ 08053-3408.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Measurement Focus, Basis of Accounting, and Financial Statement 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 GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

BDO is a non-profit organization that reports under FASB standards, including the FASB ASC Not-for-Profit Topic, as discussed in Note 18. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to BDO's financial information in the School's financial statements for those differences.

***Government-Wide Financial Statements:***

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. These statements include the financial activities of the overall government, except for fiduciary activities, which account for resources held for the benefit of parties outside the primary government because their resources are not available to support the School's programs. The government-wide statements provide information about the School and its component unit, without displaying funds. These statements also distinguish between the School and its discretely presented component unit. Eliminations have been made to minimize the double counting of internal activities. The statement of activities demonstrates the degree to which the direct expenses of the School's function are offset by program revenues.

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 the provider have been met.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liability rather than as expenditures.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

***Fund Financial Statements:***

The fund financial statements provide information about the School's funds. The 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 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Operating grants, capital grants, contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when the School receives cash.

Under current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during the period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year the resources were expended rather than as fund assets. The proceeds of long-term debt are recorded as another financing source rather than a fund liability. However, debt service expenditures, as well as expenditures related to compensated absences and claims for judgments, are recorded only when payment is due.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

***Fund Financial Statements (Continued):***

The School 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, with the exception of the activities of the enterprise fund.

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

The School reports the following proprietary fund:

*Food Service Fund* – Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services, and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the School's enterprise fund are charges to students for sales of food. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Budgets and Budgetary Accounting

Budgets are adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. An annual budget is adopted for the General Fund. The School is required to present the adopted and final budgeted revenues and expenditures for the general fund that were filed and accepted by the Labor, Education and Community Services Comptroller's office. The General Fund budget appears on page 56.

The Governmental Fund Budgetary Comparison Schedule should present both the original and the final appropriated budgets for the reporting period. The budgetary comparison 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 as of the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The School's cash is considered to be cash on hand and demand deposits. For the purpose of financial statement presentation, the School considers all highly liquid instruments with a maturity of three months or less to be considered cash equivalents.

Receivables

Receivables primarily consist of amounts due from the Pennsylvania Department of Education for federal and state grants and subsidies and from the School District of Philadelphia for student education and federal grants. Receivables are stated at the amount management expects to collect from outstanding balances. As of June 30, 2018, based on historical experience, no allowance for doubtful accounts has been recorded.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Prepaid Expenses

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

Capital Assets

Capital assets, which include leasehold improvements, classroom and office furniture and computer equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a threshold level of \$2,500 or more for capitalizing assets. The School does not possess any infrastructure. The infrastructure is owned by BDO, which is shown discretely. 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 useful lives of the assets, which range from three (3) to thirty (30) years.

Refundable Advances

The refundable advances primarily represents federal grant monies received in advance and will be recognized as revenue as conditions of the agreement are met.

Deferred Outflows/Inflows of Resources

Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of net position and related disclosures. In compliance with Statement No. 63, the statement of net position includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Accrued Rental Liability

The School recognizes rental expense in accordance with GASB 13, *Accounting for Operating Leases with Scheduled Rent Increases*. Rental payments are recognized on a straight-line basis over the term of the lease. The difference between actual rent paid per the lease agreement and the straight line amount is either an increase or decrease to "accrued rental liability" in the accompanying statement of net position.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Pensions

The School adopted Statement No. 68, *Accounting and Financial Reporting for Pensions* as amended by Statement No. 82, *Pension Issues – and amendment of GASB Statements No. 67, No. 68, and No. 73*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Under Statements Nos. 68, 82, and 71, for purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public School Employee's 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 (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. See Notes 6 and 7 for additional pension information.

Other Postemployment Benefits

The School adopted Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Under Statement 75, 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. See Notes 8 and 9 for additional OPEB information.

Net Position / Fund Balances

The School has adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). Statement No. 63 requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. Statement No. 63 requires the classification of net position into three components - invested in capital assets, net of related debt; restricted net position; and unrestricted net position. These classifications are defined as follows:

- Invested in capital assets, net of related debt — 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 invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Net Position / Fund Balances (Continued)

- Restricted net position — This component of net position consists of constraints, placed on net asset use through external constraints imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position — This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

The School follows the provisions of GASB Statement No. 54, which requires the classification of the School's fund balance into five components: nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as follows:

- Nonspendable — This classification includes amounts that cannot be spent either because they are in a nonspendable form such as inventories or prepaid expenses or they are legally or contractually required to be maintained intact.
- Restricted — This classification includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- Committed — This classification includes amounts that can be used only for the specific purposes determined by a resolution of the School's Board of Trustees. These committed amounts cannot be used for any other purpose unless the School's Board of Trustees removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- Assigned — This classification includes amounts that are intended to be used by the School for specific purposes, but do not meet the criteria to be classified as restricted or committed. It is the School's policy that the Board of Trustees is authorized to assign amounts to specific purposes.
- Unassigned — This classification includes all spendable amounts not included in other classifications.

When both restricted or unrestricted fund balance is available, it is the School's policy to use restricted resources first; then unrestricted resources as they are needed for the included program. When an expenditure is incurred for purposes for which amounts in any unrestricted fund balance classification could be used, it is the policy of the School to use restricted resources first, followed by committed and then assigned.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Program Revenues

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the School and for each major function/program of the School's governmental activities. Direct expenses are those that are specifically associated with a program. Indirect expenses have been allocated to major functions in order to present a more accurate and complete picture of the cost of the School's services. Program revenues include (a) fees and charges paid by recipients of goods or services offered by the major programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including local educational agency assistance, unrestricted grants and contributions, are presented as general revenues.

Operating and Non-Operating Revenues of Proprietary Funds

Proprietary fund operating revenues, such as charges for services and grants and contributions, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies, reimbursements and investment earnings, result from non-exchange transactions or ancillary activities.

Advertising Costs

All costs associated with advertising and promotions are expenses in the year incurred.

Income Tax Status

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code.

The School files federal Exempt Organization Business Income Tax Returns (Form 990). With few exceptions, the School is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2015.

Uncertain Tax Positions

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. At June 30, 2018, the School has no recorded tax liability for unrelated business activity, as it does not believe it is involved in any such activities. The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

Adoption of New Accounting Standards

During the year ended June 30, 2018, the School implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). GASB Statement No. 75 replaces the requirements of GASB Statements No. 45 and No. 57, with the objective of improving accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It requires that state and local governments recognize and record the actuarially determined net OPEB liability, or, for multi-employer cost sharing plans, the entity's share of the net pension liability, in the entity's financial statements. The adoption of GASB Statement No. 75 required the School to restate its net position as of June 30, 2017, as detailed in Note 17.

During the year ended June 30, 2018, the School implemented GASB Statement No. 84, *Fiduciary Activities*. Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. There is no effect on the School.

During the year ended June 30, 2018, the School implemented GASB 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 (OPEB). GASB Statement No. 85 is effective for periods beginning after June 15, 2017. There is no effect on the School.

Date of Management's Review

Management has evaluated material subsequent events through the date that these financial statements were available to be issued on December 21, 2018.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 2            CASH

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School monitors credit risk by periodically reviewing Federal Deposit Insurance Corporation ("FDIC") limits and published credit ratings of its depository bank(s). As of June 30, 2018 the combined total of all deposits were insured up to at least \$250,000. The School maintains its cash balances which, at times during the year, may exceed the threshold for insurance by the FDIC. Under Pennsylvania Act 72 (72 Pa.Stat.Ann Sec 3836-1 et seq.) financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School has elected for substantially all of its accounts to be covered under this act.

As of June 30, 2018, the custodial risk is as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Component</u> <u>Unit</u>
Uninsured and uncollateralized	\$ -	\$ -	\$ -
Collateralized	-	-	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	<u>2,887,352</u>	-	-
Total	<u>\$ 2,887,352</u>	<u>\$ -</u>	<u>\$ -</u>

Reconciliation to the financial statements:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Component</u> <u>Unit</u>
Cash exposed to custodial risk	\$ 2,887,352	\$ -	\$ -
Plus: Insured amount	250,000	-	91,215
Less: Outstanding checks	<u>(346,992)</u>	-	-
	<u>\$ 2,790,360</u>	<u>\$ -</u>	<u>\$ 91,215</u>

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 3 LOCAL EDUCATION AGENCY ASSISTANCE (REVENUE)

The School receives funding from the School District of Philadelphia on a monthly basis based on enrollment. The School also receives funding from other surrounding school districts, based on enrollment, for students who have moved from Philadelphia after already attending the School. The rate of funding per student is determined on an annual basis.

Charter schools are funded by the local public school district where each student resides, which is primarily the School District of Philadelphia. For non-special education students, the charter school receives for each student enrolled no less than the budgeted total expenditure per average daily membership of the prior school year as defined by the Act. For the year ended June 30, 2018, the rate for the School District of Philadelphia was \$8,327 per year per student plus additional funding for special education students at a rate of \$26,197 per student. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. Total revenue from local sources based on enrollment was \$13,725,602 for the year ended June 30, 2018, of which \$13,718,554 was from the School District of Philadelphia.

NOTE 4 RECEIVABLES

Receivables at June 30, 2018, consisted primarily of subsidies from federal, state, local and private authorities and organizations. All receivables are considered collectible due to the stable condition of the federal and state programs.

A summary of the principle items of receivables is as follows:

<u>Receivables</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Federal	\$ 354,626	\$ 26,582
State	205,951	1,065
Local	2,356	-
Other	<u>25,101</u>	<u>-</u>
	<u>\$ 588,034</u>	<u>\$ 27,647</u>

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 5 CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2018 was as follows:

***Governmental Activities***

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Leasehold improvements	\$ 553,577	\$ 25,634	\$ -	\$ 579,211
Equipment	1,196,614	97,582	-	1,294,196
Furniture and fixtures	<u>226,475</u>	<u>-</u>	<u>-</u>	<u>226,475</u>
	1,976,666	123,216	-	2,099,882
Less: Accumulated depreciation	<u>(1,557,917)</u>	<u>(140,593)</u>	<u>-</u>	<u>(1,698,510)</u>
Capital assets, net	<u>\$ 418,749</u>	<u>\$ (17,377)</u>	<u>\$ -</u>	<u>\$ 401,372</u>

Depreciation expense for governmental activities for the year ended June 30, 2018 was \$140,593.

***Business –Type Activities***

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Equipment	\$ 247,084	\$ 9,458	\$ -	\$ 256,542
Less: Accumulated depreciation	<u>(211,330)</u>	<u>(32,668)</u>	<u>-</u>	<u>(243,998)</u>
Capital assets, net	<u>\$ 35,754</u>	<u>\$ (23,210)</u>	<u>\$ -</u>	<u>\$ 12,544</u>

Depreciation expense for business-type activities for the year ended June 30, 2018 was \$32,668.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
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NOTE 6            RETIREMENT PLAN

Plan Description

The School contributes to the Pennsylvania Public School Employees' Retirement System ("PSERS"). 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. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 8101-8535) assigns the authority to establish and amend benefit provisions to the System. PSERS issues a publicly available financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits Provided

PSERS provides retirement, disability, and death benefits. Under the provisions of the 1975 revision of the Code by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 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) preserved the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 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, of 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 T-F members, the right to benefits is vested after ten 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 (ten 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.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
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NOTE 6 RETIREMENT PLAN (Continued)

Contributions

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.

Member Contributions:

- Active members who joined the System prior to July 22, 1983, contribute at 5.25% (Membership Class T-C) or at 6.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Membership Class T-C) or at 7.50% (Membership Class T-D) of the member's qualifying compensation.
- Members who joined the System after June 30, 2001 and before July 1, 2011, contribute at 7.50% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.
- Members who joined the System after June 30, 2011, automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member's qualifying compensation. All new hires after June 30, 2011, who elect Class T-F membership, contribute at 10.3% (base rate) of the member's qualifying compensation. Membership Class T-E and Class T-F are affected by a "shared risk" provision in Act 120 of 2010 that in future fiscal years could cause the Membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and Membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

Employer Contributions:

- The School's contractually required contribution rate for fiscal year ended June 30, 2018 was 31.74% 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 pension plan from the School were \$1,245,981, \$1,382,488, and \$980,180 for the years ended June 30, 2018, June 30, 2017, and June 30, 2016, respectively.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 7            PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES  
AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2018, the School reported a liability of \$19,163,000 for its proportionate share of the net pension liability. 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 employer's reported covered payroll as a percentage of the collective covered payroll of all members of PSERS. At June 30, 2017, the School's proportion was 0.0388 percent, which was a decrease of 0.0016 from its proportion measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the School recognized pension expense of \$1,114,000. 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	\$        200,000	\$        217,512
Changes in assumptions	521,000	-
Net difference between projected and actual investment earnings	444,000	-
Changes in proportions	64,000	2,373,000
Contributions subsequent to the measurement date	<u>1,245,981</u>	-
	<u>\$        2,474,981</u>	<u>\$        2,590,512</u>

\$1,245,981 reported as deferred outflows of resources related to pensions resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2018	\$        (621,000)
2019	(393,000)
2020	(39,000)
2021	<u>(207,000)</u>
	<u>\$        (1,260,000)</u>

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 7      PENSION LIABILITIES, PENSION EXPENSE, AND 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 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 – 7.25%, includes inflation at 2.75%
- The inflation assumption was decreased from 3.0% to 2.75%.
- Salary growth – 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 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 real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the 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.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 7 PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES  
AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (Continued)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global public equity	20.0%	5.1%
Fixed income	36.0%	2.6%
Commodities	8.0%	3.0%
Absolute return	10.0%	3.4%
Risk parity	10.0%	3.8%
Infrastructure/MLPs	8.0%	4.8%
Real estate	10.0%	3.6%
Alternative investments	15.0%	6.2%
Cash	3.0%	0.6%
Financing (LIBOR)	-20.0%	1.1%
	<u>100%</u>	

The above was the 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 projection 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 at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net 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.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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NOTE 7 PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES  
AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (Continued)

Sensitivity of the School’s proportionate share of the net pension liability to change in the discount rate

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

	<u>1% Decrease 6.25%</u>	<u>Current Discount Rate 7.25%</u>	<u>1% Increase 8.25%</u>
District's proportionate share of the net pension liability	\$ 23,588,000	\$ 19,163,000	\$ 15,427,000

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.state.pa.us](http://www.psers.state.pa.us).

Payable to the Pension Plan

At June 30, 2018, the School’s governmental fund reported a payable of \$907,123 for the outstanding amount of contributions to the pension plan and PSERS included in accrued payroll for the year ended June 30, 2018.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
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NOTE 8            OTHER POSTEMPLOYMENT BENEFITS

Health Insurance Premium Assistance Program

The Public School Employees' Retirement System (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. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

Premium Assistance Eligibility Criteria

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

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

Benefits Provided

Participating eligible retirees are entitled to receive premium assistance payments equal to the lesser of \$100 per month or their out-of-pocket monthly health insurance premium. To receive premium assistance, eligible retirees must obtain their health insurance through either their school employer or the PSERS' Health Options Program. As of June 30, 2017 there were no assumed future benefit increases to participating eligible retirees.

Employer Contributions:

- The School's contractually required contribution rate for 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 \$13,311 for the year ended June 30, 2018.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 9 OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

At June 30, 2018, the School reported a liability of \$791,000 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 covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2017, the School's proportion was 0.0388 percent, which was a decrease of 0.0016 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$29,200. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 43,000
Changes in assumptions	-	36,000
Net difference between projected and actual investment earnings	1,000	-
Changes in proportion	-	30,000
Contributions subsequent to the measurement date	13,311	-
	<u>\$ 14,311</u>	<u>\$ 109,000</u>

\$13,311 reported as deferred outflows of resources related to pensions resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30,	
2018	\$ (11,000)
2019	(11,000)
2020	(11,000)
2021	(11,000)
2022	(11,000)
Thereafter	(11,000)
	<u>\$ (66,000)</u>

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
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NOTE 9            OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND  
DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (Continued)

Actuarial Assumptions

The total OPEB liability as of June 30, 2017 was determined by rolling forward the System's total OPEB liability as of the June 30, 2016 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 – 3.13%, S&P 20 Year Municipal Bond Rate
- Salary growth – Effective average of 5.00%, comprised of inflation of 2.75% and 2.25% for real wage growth and for merit or seniority increases.
- Premium Assistance reimbursement is capped at \$1,200 per year.
- Assumed Healthcare cost trends were applied to retirees with less than \$1,200 in premium assistance per year.
- Mortality rates were based on the RP-2014 Mortality Tables for Males and Females, adjusted to reflect PSERS' experience and projected using a modified version of the MP-2015 Mortality Improvement Scale.
- Participation rate:
  - Eligible retirees will elect to participate Pre age 65 at 50%
  - Eligible retirees will elect to participate Post age 65 at 70%

The 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: Amount necessary to assure solvency of Premium Assistance through the third fiscal year after the valuation date.
- Asset valuation method: Market Value.
- Participation rate: 63% of eligible retirees are assumed to elect premium assistance.
- Mortality rates and retirement ages were based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 for both males and females for healthy annuitants and for dependent beneficiaries. For disabled annuitants, the RP-2000 Combined Disabled Tables with age set back 7 years for males and 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.)

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.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 9 OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (Continued)

Actuarial Assumptions (Continued)

The OPEB plan's policy in regard to the allocation of invested plan assets is established and may be amended by the 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	76.4%	0.6%
Fixed Income	23.6%	1.5%
	<u>100%</u>	

The above was the 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 OPEB liability was 3.13%. 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 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.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 9 OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (Continued)**

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

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

The following presents the System net OPEB liability for June 30, 2017, calculated using current Healthcare cost trends as well as what the System net OPEB liability would be if it health cost trends were 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
System net OPEB liability	\$ 790,000	\$ 791,000	\$ 791,000

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 1-percentage-point higher (4.13%) than the current rate:

	<u>1% Decrease 2.13%</u>	<u>Current Discount Rate 3.13%</u>	<u>1% Increase 4.13%</u>
District's proportionate share of the net pension liability	\$ 899,000	\$ 791,000	\$ 701,000

OPEB 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.state.pa.us](http://www.psers.state.pa.us).

**NOTE 10 EMPLOYEE BENEFIT PLAN**

The School maintains a savings incentive plan 403(b) for its employees. All employees are eligible. Participants may elect voluntary salary deferrals under the plan up to the maximum permitted by law. The School makes a contribution for certain employees enrolled into the plan at a rate of 5%. Contribution expense for the plan amounted to \$71,308 for the year ended June 30, 2018.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 11      COMMITMENTS

Contracts

The School has entered into a consulting agreement with a business management services company ("Business Manager") through June 30, 2019. Minimum payments under this agreement are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ <u>89,547</u>

Operating Lease

The School leases its facilities at 1840 Torresdale Avenue from BDO under a long-term operating lease ending December 15, 2041. Base rentals are due in increasing amounts over the term of the lease. Rent under the lease for the year ended June 30, 2018, was \$2,308,337, which includes \$2,041,026 of base rentals and amortized straight-line rents of \$88,811. The lease agreement also includes a provision that minimum rentals may be increased as needed based on debt service requirements of BDO. Additional rents were paid in the amount of \$178,500.

Future minimum rentals under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 2,039,776
2020	2,042,120
2021	2,042,901
2022	2,042,120
2023	2,042,468
2024-2028	10,205,807
2029-2033	10,200,055
2034-2038	10,205,819
2039-2042	<u>10,187,819</u>
	<u>\$ 51,008,885</u>

The School and BDO make and receive advances in the normal course of operations, which are non-interest bearing. The amount due to the School, as of June 30, 2018, was \$1,914,246.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 12      CONTINGENCIES

Grants

Grants received are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the School expects such amounts, if any, to be immaterial.

Litigation

The School is, from time to time, involved in claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, at this time, the ultimate resolution of these matters will not have an adverse effect on the financial position of the School.

Risk Management

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. There has been no significant reduction in insurance coverage from the previous year in any of the School's policies.

NOTE 13      FUND BALANCES

The School has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which defines how fund balances of the governmental funds are presented in the financial statements.

The details of the fund balances are included in the Governmental Fund Balance Sheet. As discussed in Note 1, restricted funds are used first as appropriate. Committed and Assigned funds are reduced to the extent that the commitment or assignment has been changed by the Board of Trustees.

The General Fund has no Unassigned Fund Balance as of June 30, 2018.

Prepaid expenses and the balance due from BDO, as discussed in Note 15, are considered Nonspendable Funds in the amount of \$2,008,325.

The General Fund has no Assigned Funds as of June 30, 2018.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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NOTE 13 FUND BALANCES (Continued)

The General Fund has Committed Funds of \$1,384,853, which have been committed by the Board of Trustees for the following uses as of June 30, 2018:

	<u>Amount</u>
Capital improvements fund	\$ 384,853
Future debt service requirements	<u>1,000,000</u>
	<u>\$ 1,384,853</u>

NOTE 14 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018 is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	\$ 23,897
Enterprise Fund	<u>23,897</u>	<u>-</u>
	<u>\$ 23,897</u>	<u>\$ 23,897</u>

The above balances are the results of expenditures paid by one fund on behalf of another fund.

NOTE 15 RELATED PARTY TRANSACTIONS

The School leases under an operating agreement, property which is located at 1840 Torresdale Avenue in Philadelphia, Pennsylvania from BDO as discussed in Notes 11 and 18.

The School and BDO also make and receive advances in the normal course of operations, which are non-interest bearing. The amount due to the School as of June 30, 2018, was \$1,914,246.

NOTE 16 CONCENTRATIONS

Approximately 85% of the School's revenue results from funds received from the School District of Philadelphia based on the student enrollment.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 17      CHANGE IN ACCOUNTING PRINCIPLE AND RECLASSIFICATION OF NET POSITION  
(DEFICIT) BETWEEN FUNDS DUE TO GASB 68

For the year ended June 30, 2018, the School adopted the standards of Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). GASB 75 requires cost-sharing employers participating in the PSERS Health Insurance Premium Assistance Program to record their proportionate share of the OPEB liability. As a result, net position of the governmental activities and the enterprise fund at June 30, 2017, were restated to reflect the cumulative effect of adopting the standards.

For the year ended June 30, 2018, the School reclassified a portion of the Deferred Outflows of Resources, Deferred Inflows of Resources, and the Net Pension Liability that relates to GASB 68 between the Governmental and Proprietary Funds. The change was retrospectively restated and has no impact to total government-wide net position (deficit) as shown on the Statement of Activities.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net Position (Deficit), June 30, 2017, as Originally Stated	\$ (16,222,560)	\$ 32,523
Cumulative Effect of Adoption of GASB 75	(861,085)	(8,715)
Reclassification of Net Position Due to GASB 68	<u>202,255</u>	<u>(202,255)</u>
Net Position (Deficit), July 1, 2017, as Restated	<u>\$ (16,881,390)</u>	<u>\$ (178,447)</u>

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 18      COMPONENT UNIT

Summary of Significant Accounting Policies

*Nature of Organization and Business Activities*

BDO is a non-profit corporation in Pennsylvania under the provisions of Section 501(c)(3) of the Internal Revenue Code. BDO commenced operations on July 1, 2011. The goal of BDO is to provide support to the School through fundraising and charitable gifts.

*Basis of Accounting*

The financial statements of BDO have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

*Basis of Presentation*

The financial statement presentation follows the recommendation of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board's Accounting Standards Codification ("FASB ASC"). Under the Not-for-Profit Topic of FASB ASC, BDO is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2018, BDO's net assets were unrestricted.

*Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

For the purpose of financial statement presentation, BDO considers all highly liquid instruments with a maturity of three months or less to be considered cash equivalents.

*Accrued Rental Asset*

BDO recognizes rental income in accordance with the FASB ASC Accounting for Leases Topic. Rental payments are recognized on a straight-line basis over the term of the lease. The difference between the actual rent received per the lease agreement and the straight-line amount is either an increase or decrease to "accrued rental asset" in the accompanying statement of net position (deficit).

*Building and Improvements*

Property and improvements are stated at cost less accumulated depreciation. Expenditures for additions and betterments are capitalized and maintenance and repairs are charged to current operations as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and the gain or loss on such dispositions is included in current operations. Depreciation is provided using the straight-line method over the estimated useful life of the respective assets as follows, and land is not depreciated.

Building and improvements	30 years
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**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 18      COMPONENT UNIT (Continued)

Summary of Significant Accounting Policies (Continued)

*Bond Issuance Costs and Original Issue Discount*

Bond issuance costs and the original issue discounts incurred by BDO in the issuance of the Series 2011 tax-exempt revenue bonds, as discussed in this Note 18, are amortized over the terms of the bonds, using the straight-line method, which approximates the effective interest rate method. The unamortized portion as of June 30, 2018 was \$1,188,009.

Amortization of bond issuance costs and original issue discount included as interest expense for the year ended June 30, 2018 was \$49,500. Future amortizations of bond issuance costs and original issue discounts amount to \$49,500 annually for 2019 through 2041 and \$49,511 in 2042.

*Net Assets*

*Unrestricted Net Assets* – BDO reports assets whose use is not restricted by donors as unrestricted net assets. Contributions are available for unrestricted use unless specifically restricted by the donor. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Directors.

*Temporarily Restricted Net Assets* – BDO reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Permanently restricted net assets are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be utilized for purposes specified by the donor.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 18      COMPONENT UNIT (Continued)

Summary of Significant Accounting Policies (Continued)

*Tax Status and Uncertainty in Income Taxes*

BDO is a Pennsylvania not-for-profit corporation. The Internal Revenue Service has issued a determination letter that BDO is a nonprofit organization, as defined under Section 501(c)(3) of the Internal Revenue Code. As such, BDO is generally exempt from income taxes. It is however, required to file Federal Form 990—Return of Organization Exempt from Income Tax. This is an informational return only. BDO would be taxed on unrelated business income which does not fall under the 501(c)(3) exemption. Management believes that BDO has received no unrelated business income and accordingly, there was no income tax on unrelated business income. Additionally, management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Tax years which remain subject to examination as of June 30, 2018 are 2015 through 2017, generally for three years after they are filed.

*Fair Value Measurements*

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value, sets out a framework for measuring fair value, which refers to certain valuation concepts and requires certain disclosures about fair value measurements. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This topic establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. The hierarchy established prioritizes fair value measurements based on the types of inputs used in the valuation technique. BDO uses the following hierarchical disclosure framework:

*Level 1* – Measurement based upon inputs such as quoted prices in active markets for identical assets and liabilities in an active market as of the reporting date;

*Level 2* – Measurement based upon marketplace inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

*Level 3* – Measurement based on BDO's assumptions about a hypothetical marketplace because observable market inputs are not available as of the reporting date.

Accordingly, all short-term financial instruments are carried at cost on the Statement of Financial Position, which approximates fair value due to their short-term, highly liquid nature.

At June 30, 2018, BDO's investments, recorded as escrow deposits, consist of cash equivalents and mutual funds. The valuations of these investments according to the fair value hierarchy are all Level 1.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 18      COMPONENT UNIT (Continued)

Escrow Deposits

BDO maintains various escrow deposit accounts required pursuant to the bond settlement agreement. Amounts maintained in the accounts include highly liquid investments with an initial maturity of three months or less at a financial institution. These restricted balances are limited in use, and are reported as escrow deposits because BDO holds those funds for specific purposes as discussed below.

A summary of the principal escrow accounts held by the BDO as of June 30, 2018 is as follows:

	<u>Amount</u>
Debt Service Reserve Fund	\$ 2,080,583
Repair and Replacement Fund	329,044
Debt Service Fund	162,931
Paid Settlement Fund	7,986
Revenue Fund	1
	<u>\$ 2,580,545</u>

The investments recorded as escrow deposits are presented in the financial statements at fair value using level 1 fair value measures (quoted prices in active markets). At June 30, 2018, these investments consisted of the following:

	<u>Amount</u>
Mutual Funds	\$ 2,043,075
Cash Equivalents:	
Money Market Funds	<u>537,470</u>
	<u>\$ 2,580,545</u>

Investment return on these investments consisted of interest in the amount of \$54,587, for the year ended June 30, 2018.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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NOTE 18      COMPONENT UNIT (Continued)

Capital Assets

As of June 30, 2018, capital assets consisted of the following:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Land	\$ 344,068	\$ -	\$ -	\$ 344,068
Building and improvements	<u>22,756,990</u>	<u>-</u>	<u>-</u>	<u>22,756,990</u>
	23,101,058	-	-	23,101,058
Less: Accumulated depreciation	<u>(3,033,059)</u>	<u>(758,567)</u>	<u>-</u>	<u>(3,791,626)</u>
	<u>\$ 20,067,999</u>	<u>\$ (758,567)</u>	<u>\$ -</u>	<u>\$ 19,309,432</u>

Depreciation expense for the year ended June 30, 2018, was \$758,567. All capital assets are pledged as collateral for the bonds payable.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 18      COMPONENT UNIT (Continued)

Bonds Payable

In December 2011, BDO issued Series 2011 tax-exempt revenue bonds in the amount of \$24,740,000 to (a) improvements and the purchase of a new building located at 1840 Torresdale Avenue Philadelphia, PA (the "Property").

Interest is paid to bondholders on June 15 and December 15 of each year, commencing June 15, 2012. The interest rates on the bonds range from 6% - 8%. The bonds mature in the amounts of \$3,010,000, \$3,000,000, \$8,805,000 and \$9,925,000, on December 15, 2021, 2031, 2036 and 2041, respectively, with an optional and mandatory redemption of a portion of the bonds each December 15. The bonds are collateralized by the Property and assignment of all leases and income on the Property and guaranteed by the School. As of June 30, 2018, the amount outstanding was \$23,280,000, less bond issuance costs and original issue discount of \$1,188,009. During the year ended June 30, 2018, \$330,000 of the bonds was redeemed.

There are certain covenants with respect to the bonds payable. Such covenants include reporting requirements, and financial covenants relating to unrestricted cash balances and debt service coverage. Management is not aware of any violations of the covenants.

Future principal and interest payments on bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 350,000	\$ 1,689,776	\$ 2,039,776
2020	375,000	1,667,120	2,042,120
2021	400,000	1,642,901	2,042,901
2022	425,000	1,617,120	2,042,120
2023	455,000	1,587,468	2,042,468
2024-2028	2,830,000	7,375,807	10,205,807
2029-2033	4,050,000	6,150,055	10,200,055
2034-2038	5,805,000	4,400,819	10,205,819
2039-2042	8,590,000	1,597,819	10,187,819
	<u>\$ 23,280,000</u>	<u>\$ 27,728,885</u>	<u>\$ 51,008,885</u>

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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NOTE 15      COMPONENT UNIT (Continued)

Related Party Transactions

BDO leases 100% of its rental facility to the School under a long-term operating lease ending December 15, 2041. Rent under the lease for the year ended June 30, 2016, was \$2,308,337, which includes \$2,041,026 of base rentals and amortized straight-line rents of \$88,811. The lease agreement also includes a provision that minimum rentals may be increased as needed based on debt service requirements of the Foundation, an additional amount was paid in the amount of \$178,500. Future minimum rentals under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 2,039,776
2020	2,042,120
2021	2,042,901
2022	2,042,120
2023	2,042,468
Thereafter	40,799,500
	<u>\$ 51,008,885</u>

BDO and the School make and receive advances in the normal course of operations, which are non-interest bearing. The amount due to the School, as of June 30, 2018, was \$1,914,246.

Concentrations

*Concentration of Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the BDO's deposits may not be returned to BDO. BDO maintained its cash in a bank insured by the Federal Deposit Insurance Corporation ("FDIC"). As of June 30, 2018, the combined total of all deposits were insured up to at least \$250,000. BDO maintains its cash balances which, at times during the year, may exceed the threshold for insurance by the FDIC. At June 30, 2018, there were no balances in excess of FDIC insured limits. BDO has not experienced any losses in such accounts.

*Rental Income*

100% of the total rental revenue of BDO as of June 30, 2018, is generated from the School through direct leased property.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND CONTRIBUTIONS**  
**(UNAUDITED)**  
**JUNE 30, 2018**

	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>	<u>6/30/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY					
School's Proportion of the Net Pension Liability	0.0388%	0.0404%	0.0431%	0.0495%	0.0488%
School's Proportionate Share of the Net Pension Liability	\$ 19,163,000	\$ 20,021,000	\$ 18,669,000	\$ 19,593,000	\$ 19,976,000
School's Covered Payroll	\$ 5,184,213	\$ 4,997,607	\$ 5,562,013	\$ 6,316,641	\$ 6,261,568
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	370%	401%	336%	310%	319%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	52%	50%	54%	57%	54%

	<u>6/30/18</u>	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
SCHOOL CONTRIBUTIONS					
Statutorily Required Contribution	\$ 1,245,981	\$ 1,382,488	\$ 980,180	\$ 1,106,203	\$ 1,771,000
Contributions in Relation to the Statutorily Required Contribution	<u>(1,245,981)</u>	<u>(1,382,488)</u>	<u>(980,180)</u>	<u>(1,106,203)</u>	<u>(1,771,000)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 4,927,741	\$ 5,184,213	\$ 4,997,607	\$ 5,562,013	\$ 6,316,641
Contributions as a Percentage of Covered-Employee Payroll	25.29%	26.67%	19.61%	19.89%	28.04%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY AND CONTRIBUTIONS**  
**(UNAUDITED)**  
**JUNE 30, 2018**

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	<u>6/30/17</u>	<u>6/30/16</u>
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY		
School's Proportion of the Net OPEB Liability	0.0388%	0.0404%
School's Proportionate Share of the Net OPEB Liability	\$ 791,000	\$ 870,000
School's Covered Payroll	\$ 5,184,213	\$ 4,997,607
School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered-Employee Payroll	15%	17%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6%	5%
	<u>6/30/18</u>	<u>6/30/17</u>
SCHOOL CONTRIBUTIONS		
Statutorily Required Contribution	\$ 13,311	\$ 12,911
Contributions in Relation to the Statutorily Required Contribution	<u>(13,311)</u>	<u>(12,911)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 4,927,741	\$ 5,184,213
Contributions as a Percentage of Covered-Employee Payroll	0.27%	0.25%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF GOVERNMENTAL FUND BUDGETARY COMPARISON (UNAUDITED)**  
**JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
Local sources	\$ 13,728,164	\$ 13,638,815	\$ 13,725,602	\$ 86,787
State sources	320,066	320,066	308,722	(11,344)
Federal sources	1,170,482	1,392,729	1,308,994	(83,735)
Other revenue	125,688	99,759	148,974	49,215
<b>TOTAL REVENUES</b>	<u>15,344,400</u>	<u>15,451,369</u>	<u>15,492,292</u>	<u>40,923</u>
<b>EXPENDITURES</b>				
Instruction	8,511,406	8,368,448	8,473,233	(104,785)
Support services	6,666,591	6,752,288	6,462,205	290,083
Non-instructional services	84,555	84,555	121,720	(37,165)
Capital outlay	-	-	123,216	(123,216)
<b>TOTAL EXPENDITURES</b>	<u>15,262,552</u>	<u>15,205,291</u>	<u>15,180,374</u>	<u>24,917</u>
<b>EXCESS OF REVENUES OVER</b>				
<b>EXPENDITURES</b>	<u>\$ 81,848</u>	<u>\$ 246,078</u>	311,918	<u>\$ 65,840</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>3,081,260</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 3,393,178</u>	

See accompanying notes to the financial statements.

**SINGLE AUDIT**

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

Grantor Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Grant Period		Total Received (Refunded) for the Year	Accrued or (Deferred) Revenue at July 1, 2017	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2018
					Beginning Date	Ending Date					
<u>U.S. Department of Education, Passed-through the PA Department of Education</u>											
Title I Grants to Local Educational Agencies	I	84.010	013-170994	\$ 896,329	7/1/2016	9/30/2017	\$ 45,974	\$ 45,974	\$ -	\$ -	\$ -
Title I Grants to Local Educational Agencies	I	84.010	013-180994	998,720	7/1/2017	9/30/2018	774,862	-	961,558	961,558	186,696
Total Title I Grants to Local Educational Agencies							820,836	45,974	961,558	961,558	186,696
Title II Improving Teacher Quality State Grants	I	84.367	020-180994	87,934	7/1/2017	9/30/2018	54,718	-	87,934	87,934	33,216
Title III English Language Acquisition State Grants	I	84.365	010-170994	35,483	7/1/2016	9/30/2017	9,462	9,462	-	-	-
Title III English Language Acquisition State Grants	I	84.365	010-180994	25,346	7/1/2017	9/30/2018	19,497	-	25,346	25,346	5,849
Total Title III English Language Acquisition State Grants							28,959	9,462	25,346	25,346	5,849
Title IV Student Support and Academic Enrichment	I	84.424	144-180994	23,161	7/1/2017	9/30/2018	16,035	-	23,161	23,161	7,126
<u>U.S. Department of Education, Passed-through the School District of Philadelphia</u>											
Special Education - Grants to States (IDEA, Part B)	I	84.027	N/A	207,885	7/1/2016	6/30/2017	207,885	207,885	-	-	-
Special Education - Grants to States (IDEA, Part B)	I	84.027	N/A	210,995	7/1/2017	6/30/2018	126,418	-	210,995	210,995	84,577
Total Special Education - Grants to States (IDEA, Part B)							334,303	207,885	210,995	210,995	84,577
Total U.S. Department of Education							1,254,851	263,321	1,308,994	1,308,994	317,464
<u>U.S. Department of Agriculture, Passed-through the PA Department of Education</u>											
National School Lunch Program	I	10.555	362	N/A	7/1/2016	6/30/2017	75,436	75,436	-	-	-
National School Lunch Program	I	10.555	362	N/A	7/1/2017	6/30/2018	469,446	-	490,048	490,048	20,602
School Breakfast Program	I	10.553	365	N/A	7/1/2016	6/30/2017	24,397	24,397	-	-	-
School Breakfast Program	I	10.553	365	N/A	7/1/2017	6/30/2018	129,193	-	135,173	135,173	5,980
<u>U.S. Department of Agriculture, Passed-through the PA Department of Agriculture</u>											
National School Lunch Program - Food Commodities	I	10.555	362	N/A	7/1/2017	6/30/2018	47,773	-	47,773	47,773	-
Total Child Nutrition Cluster											
Total U.S. Department of Agriculture							746,245	99,833	672,994	672,994	26,582
Total Expenditures of Federal Awards							\$ 2,001,096	\$ 363,154	\$ 1,981,988	\$ 1,981,988	\$ 344,046

**Source Codes Legend:**

- (D) Indicates direct funding
- (I) Indicates indirect funding
- (S) Indicates state matching funding

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

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**NOTE 1           GENERAL INFORMATION**

The accompanying Schedule of Expenditures of Federal Awards presents the activities of the federal financial assistance programs of Mariana Bracetti Academy Charter School (the "School"). Federal awards received directly from federal agencies, as well as financial assistance passed through other governments agencies or non-profit 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, which is described in Note 1 to the School's financial statements. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**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, revenues, 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 balances of governmental funds.

**NOTE 4           INDIRECT COST RATE**

The School has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Independent Auditor's 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***

To the Board of Trustees  
Mariana Bracetti Academy 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 of the United States, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Mariana Bracetti Academy Charter School as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 21, 2018. The financial statements of Brazo De Oro Children's Foundation were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Brazo De Oro Children's Foundation.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mariana Bracetti Academy 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 Mariana Bracetti Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Mariana Bracetti Academy 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 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 Mariana Bracetti Academy Charter School's financial statements are free of 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants

Newtown, Pennsylvania  
December 21, 2018

**Independent Auditor's Report on Compliance  
for Each Major Program and on Internal Control Over  
Compliance Required by Uniform Guidance**

To the Board of Trustees  
Mariana Bracetti Academy Charter School  
Philadelphia, Pennsylvania

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

We have audited Mariana Bracetti Academy 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 each of Mariana Bracetti Academy Charter School's major federal programs for the year ended June 30, 2018. Mariana Bracetti Academy Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Mariana Bracetti Academy Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 Mariana Bracetti Academy 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mariana Bracetti Academy Charter School's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Mariana Bracetti Academy 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 each of its major federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of Mariana Bracetti Academy 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, we considered the Mariana Bracetti Academy Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Mariana Bracetti Academy 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 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 results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Cantor Novak Berman & Pihl, PC*

Certified Public Accountants

Newtown, Pennsylvania  
December 21, 2018

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

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**A. SUMMARY OF AUDIT RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_yes X no

Significant deficiencies identified that are not considered to be material weakness(es)?  
\_\_\_\_yes X none reported

Noncompliance material to financial statements noted? \_\_\_\_yes X no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_yes X no

Significant deficiencies identified that are not considered to be material weakness(es)?  
\_\_\_\_yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? \_\_\_\_yes X no

Major programs:

CFDA Number(s)

84.010

Name of Federal Program(s)

Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between types A and B programs: \$750,000

Auditee qualified as low-risk auditee? \_\_\_\_yes X no

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

There were no financial statement findings.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT**

There were no findings and questioned costs for federal awards, which would include audit findings as defined in Uniform Guidance.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

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**A. FINDINGS – FINANCIAL STATEMENT AUDIT**

There were no financial statement findings.

**B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT**

There were no findings and questioned costs for federal awards, which would include audit findings as defined in Uniform Guidance.