MARIANA BRACETTI ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS
AND OTHER SUPPLEMENTARY INFORMATION
JUNE 30, 2016

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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, 2016, 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.

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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, 2016, 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.

Emphasis of Matter

As described in Notes 14 and 18 to the financial statements, Mariana Bracetti Academy Charter School was not in compliance with a financial covenant relating to the bonds payable as of June 30, 2016. Our opinion is not modified with respect to this matter.

As described in Note 16 to the financial statements, net position as of June 30, 2015 has been restated to correct a misstatement. 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, and the budgetary comparison information on pages 4-10 and pages 50-51 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 accompanying 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* (Uniform Guidance), 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 22, 2016 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 22, 2016

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, 2016. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- At June 30, 2016, the School reported an ending governmental fund balance of $3,321,862, representing a decrease of $418,189 from June 30, 2015.
- Total general fund revenues for the fiscal year ended June 30, 2016 were $13,707,534, representing a decrease of $153,246 from June 30, 2015.
- The School's general fund cash balance as of June 30, 2016 was $2,537,946, representing a cash decrease of $47,907 from June 30, 2015.

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 net pension liability and contributions, budgetary information, and the single audit of the School's federal awards.

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).

Overview of the Financial Statements (Continued)

Government- Wide Financial Statements (Continued)

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.

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.

Overview of the Financial Statements (Continued)

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 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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.

	2016	2015
ASSETS		
Other assets	$ 5,300,080	$ 5,523,182
Capital assets, net	333,659	627,912
TOTAL ASSETS	5,633,739	6,151,094
DEFERRED OUTFLOWS OF RESOURCES	1,155,180	1,337,203
LIABILITIES		
Other liabilities	1,276,992	1,436,925
Long-term liabilities	19,449,094	19,592,000
TOTAL LIABILITIES	20,726,086	21,028,925
DEFERRED INFLOWS OF RESOURCES	2,292,797	1,401,000
NET POSITION (DEFICIT)		
Invested in capital assets	333,659	592,721
Unrestricted	(16,563,623)	(15,534,349)
TOTAL NET POSITION (DEFICIT)	$ (16,229,964)	$ (14,941,628)

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 $16,229,964 as of June 30, 2016.

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, 2016, the School's expenditures and special items of $15,007,485 exceeded total revenues of $14,409,182 by $598,303.

	2016	2015
REVENUES		
Local sources	$ 12,078,522	$ 12,130,500
State sources	320,487	339,204
Federal sources	1,093,024	1,234,398
Food services	701,648	577,645
Other revenue	215,501	156,678
TOTAL REVENUES	14,409,182	14,438,425
EXPENDITURES		
Instruction	7,383,556	7,667,110
Support services	6,274,463	6,528,002
Non-instructional services	160,495	116,423
Food services	670,335	459,379
Interest expense	-	1,653
Depreciation	294,253	296,543
TOTAL EXPENDITURES	14,783,102	15,069,110
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(373,920)	(630,685)
SPECIAL ITEMS		
Loss due to misappropriation	224,383	-
INCREASE (DECREASE) IN NET POSITION	(598,303)	(630,685)
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	(14,941,628)	(14,310,943)
ADJUSTMENT FOR CORRECTION OF AN ERROR (NOTE 16)	(690,033)	-
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS AS RESTATED	(15,631,661)	(14,310,943)
NET POSITION (DEFICIT), END OF YEAR	$ (16,229,964)	$ (14,941,628)

* Due to the correction of an error, the School was required to restate beginning net position and elected not to restate fiscal year 2015 balances. See Note 16.

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 $3,321,862 at June 30, 2016.

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, 2016, the School's investment in capital assets for its governmental activities and business-type activities totaled $265,435 and $68,224 (net of accumulated depreciation), respectively. This investment in capital assets includes leasehold improvements, classroom and office furniture and computer equipment.

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

Long-Term Debt

At June 30, 2016, 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 7.40% for fiscal year 2016-2017, 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 16.22% for the fiscal year 2016-2017.

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)
YEAR ENDED JUNE 30, 2016

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Unit
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 2,537,946	$ -	$ 2,537,946	$ 91,409
State subsidies receivable	319,911	3,489	323,400	-
Federal subsidies receivable	197,641	84,805	282,446	-
Local subsidies receivable	2,061	-	2,061	-
Other receivables	205	-	205	-
Prepaid expenses	76,752	-	76,752	-
Internal balances	34,336	(34,336)	-	-
TOTAL CURRENT ASSETS	3,168,852	53,958	3,222,810	91,409
Bond issuance costs, net	-	-	-	707,732
Capital assets, net	265,435	68,224	333,659	20,482,498
Accrued rental asset	-	-	-	780,094
Due from component unit	2,077,270	-	2,077,270	-
Escrow deposits	-	-	-	2,407,648
Land	-	-	-	344,068
TOTAL ASSETS	5,511,557	122,182	5,633,739	24,813,449
DEFERRED OUTFLOWS OF RESOURCES				
Changes in proportion	175,000	-	175,000	-
Contributions subsequent to the measurement date	978,853	1,327	980,180	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,153,853	1,327	1,155,180	-
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	511,719	67,063	578,782	34,999
Accrued salaries and benefits	667,024	-	667,024	-
Bonds payable, current portion	-	-	-	310,000
Refundable advances	31,186	-	31,186	-
TOTAL CURRENT LIABILITIES	1,209,929	67,063	1,276,992	344,999
Bonds payable, net of current portion and original issue discount	-	-	-	23,030,721
Due to general fund (related party)	-	-	-	2,077,270
Accrued rental liability	780,094	-	780,094	-
Net pension liability	18,669,000	-	18,669,000	-
TOTAL LIABILITIES	20,659,023	67,063	20,726,086	25,452,990
DEFERRED INFLOWS OF RESOURCES				
Changes in proportion	2,171,000	-	2,171,000	-
Difference between expected and actual experience	83,797	-	83,797	-
Net difference between projected and actual investment earnings	38,000	-	38,000	-
TOTAL DEFERRED INFLOWS OF RESOURCES	2,292,797	-	2,292,797	-
COMMITMENTS AND CONTINGENCIES (NOTES 7, 8, 9, 10, 11, 14, & 18)				
NET POSITION (DEFICIT)				
Invested in capital assets, net of related debt	265,435	68,224	333,659	-
Unrestricted	(16,551,845)	(11,778)	(16,563,623)	(639,541)
TOTAL NET POSITION (DEFICIT)	$ (16,286,410)	$ 56,446	$ (16,229,964)	$ (639,541)

See accompanying notes to the financial statements.

MARIANA BRACETTI ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
JUNE 30, 2016

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total	Component Unit: BDO
GOVERNMENTAL ACTIVITIES							
Instruction							
Regular instruction programs	$ 5,542,638	$ -	$ 704,905	$ (4,837,733)	$ -	$ (4,837,733)	$ -
Special instruction programs	1,842,585	-	321,986	(1,520,599)	-	(1,520,599)	-
Other instructional programs	54,792	-	-	(54,792)	-	(54,792)	-
Support services							
Pupil personnel	440,875	-	-	(440,875)	-	(440,875)	-
Instructional staff	124,148	-	23,995	(100,153)	-	(100,153)	-
Administration	1,648,211	-	-	(1,648,211)	-	(1,648,211)	-
Pupil health	76,335	-	431	(75,904)	-	(75,904)	-
Business	470,548	-	-	(470,548)	-	(470,548)	-
Operation and maintenance of plant services	3,305,232	-	-	(3,305,232)	-	(3,305,232)	-
Central	414,438	-	26,707	(387,731)	-	(387,731)	-
Operation of non-instructional services							
Student activities	143,339	55,381	-	(87,958)	-	(87,958)	-
Community service	17,156	750	15,000	(1,406)	-	(1,406)	-
Total governmental activities	14,080,297	56,131	1,093,024	(12,931,142)	-	(12,931,142)	-
BUSINESS-TYPE ACTIVITIES							
Food services	702,805	66,342	611,419	-	(25,044)	(25,044)	-
TOTAL PRIMARY GOVERNMENT ACTIVITIES	$ 14,783,102	$ 122,473	$ 1,704,443	(12,931,142)	(25,044)	(12,956,186)	-
COMPONENT UNIT							
Interest	$ 1,799,276	$ -	$ -	-	-	-	(1,799,276)
Program services	838,946	-	-	-	-	-	(838,946)
TOTAL COMPONENT UNIT	$ 2,638,222	$ -	$ -	-	-	-	(2,638,222)
GENERAL REVENUES/(EXPENSES)							
Local educational agencies				12,078,522	-	12,078,522	-
State grants and reimbursement				320,487	23,887	344,374	-
Rental income				-	-	-	2,333,482
All other revenue				159,370	-	159,370	45,244
Special items:							-
Loss due to misappropriation				(224,383)	-	(224,383)	-
TOTAL GENERAL REVENUES/(EXPENSES) AND SPECIAL ITEMS				12,333,996	23,887	12,357,883	2,378,726
CHANGE IN NET POSITION				(597,146)	(1,157)	(598,303)	(259,496)
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED				(14,999,231)	57,603	(14,941,628)	(380,045)
ADJUSTMENT FOR CORRECTION OF AN ERROR (SEE NOTE 16)				(690,033)	-	(690,033)	-
NET POSITION (DEFICIT), BEGINNING OF YEAR, AS RESTATED				(15,689,264)	57,603	(15,631,661)	(380,045)
NET POSITION (DEFICIT), END OF YEAR				$ (16,286,410)	$ 56,446	$ (16,229,964)	$ (639,541)

See accompanying notes to the financial statements.

MARIANA BRACETTI ACADEMY CHARTER SCHOOL
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund
ASSETS	
Cash and cash equivalents	$ 2,537,946
State subsidies receivable	319,911
Federal subsidies receivable	197,641
Other receivables	2,266
Prepaid expenses	76,752
Due from component unit	2,077,270
Due from proprietary fund	34,336
TOTAL ASSETS	$ 5,246,122
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued expenses	$ 511,719
Accrued salaries and benefits	1,381,355
Refundable advances	31,186
TOTAL LIABILITIES	1,924,260
COMMITMENTS AND CONTINGENCIES	
FUND BALANCE	
Nonspendable	2,188,358
Assigned	1,133,504
TOTAL FUND BALANCE	3,321,862
TOTAL LIABILITIES AND FUND BALANCE	$ 5,246,122

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, 2016

TOTAL FUND BALANCE - GOVERNMENTAL FUND		$ 3,321,862
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	363,335	
Equipment	1,121,136	
Furniture and fixtures	193,585	
Less: accumulated depreciation	(1,412,621)	265,435
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	(18,669,000)	
PSERS employer contribution payable	610,113	
PSERS benefits payable	104,218	
Lease payable	(780,094)	(18,734,763)
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	1,153,853	
Deferred inflows of resources related to pensions	(2,292,797)	(1,138,944)
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES		$ (16,286,410)

See accompanying notes to the financial statements.

MARIANA BRACETTI ACADEMY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund
REVENUES	
Local sources	$ 12,078,522
State sources	320,487
Federal sources	1,093,024
Other revenue	215,501
TOTAL REVENUES	13,707,534
EXPENDITURES	
Instruction	7,495,868
Support services	6,243,378
Non-instructional services	162,094
TOTAL EXPENDITURES	13,901,340
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(193,806)
SPECIAL ITEMS	
Loss due to misappropriation	224,383
NET CHANGE IN FUND BALANCE	(418,189)
FUND BALANCE, BEGINNING OF YEAR	3,740,051
FUND BALANCE, END OF YEAR	$ 3,321,862

See accompanying notes to the financial statements.

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, 2016

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS		$ (418,189)
The amount reported for governmental activities in the statement of activities is different because:		
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 assets.		(261,783)
Governmental funds report lease expenditures each period using the modified accrual basis of accounting. Thus, expendtures and fund liabilities should be recognized to the extent that amounts are payable with expendable, available financial resources.		(90,061)
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	1,280,699	
Cost of benefits earned net of employee contributions	(1,107,812)	172,887
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (597,146)

	Enterprise Fund
	Food Service Fund
ASSETS	
CURRENT ASSETS	
State subsidies receivable	$ 3,489
Federal subsidies receivable	84,805
TOTAL CURRENT ASSETS	88,294
Capital assets, net	68,224
TOTAL ASSETS	156,518
DEFERRED OUTFLOWS OF RESOURCES	
Contributions subsequent to the measurement date	1,327
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,327
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 157,845
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 67,063
Due to general fund	34,336
TOTAL CURRENT LIABILITIES	101,399
NET POSITION	
Invested in capital assets, net of related debt	68,224
Unrestricted	(11,778)
TOTAL NET POSITION	56,446
TOTAL LIABILITIES AND NET POSITION	$ 157,845

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, 2016

	Enterprise Fund
	Food Service Fund
OPERATING REVENUES	
Food service	$ 66,342
TOTAL OPERATING REVENUES	66,342
OPERATING EXPENSES	
Depreciation	32,470
Purchased services	503,199
Salaries and benefits	106,551
Equipment, supplies, and other operating expenses	44,101
TOTAL OPERATING EXPENSES	686,321
OPERATING INCOME (LOSS)	(619,979)
NONOPERATING REVENUES (EXPENSES)	
State sources	23,887
Federal sources	611,419
Interest	(16,484)
TOTAL NONOPERATING REVENUES (EXPENSES)	618,822
CHANGE IN NET POSITION	(1,157)
NET POSITION, BEGINNING OF YEAR	57,603
NET POSITION, END OF YEAR	$ 56,446

See accompanying notes to the financial statements.

MARIANA BRACETTI ACADEMY CHARTER SCHOOL
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
JUNE 30, 2016

	Enterprise Fund
	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Fees received	$ 66,342
Payments for salaries and benefits	(107,878)
Payments to vendors	(496,370)
NET CASH USED BY OPERATING ACTIVITIES	(537,906)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances from governmental fund	20,909
Subsidies received from federal sources	547,408
Subsidies received from state sources	21,264
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	589,581
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Payments on long-term debt	(35,191)
Interest paid on financing agreements	(16,484)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	(51,675)
NET CHANGE IN CASH	-
CASH, BEGINNING OF YEAR	-
CASH, END OF YEAR	$ -
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$ (619,979)
Adjustments to reconcile operating income (loss) to net cash used by operating activities	
Depreciation expense	32,470
Change in assets and liabilities	
Increase (decrease) in accounts payable	50,930
Increase (decrease) in payroll deductions/withholding	(1,327)
NET CASH USED BY OPERATING ACTIVITIES	$ (537,906)

See accompanying notes to the financial statements.

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 there 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.

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

Basis of Presentation

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The 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.

The GASB issued Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62.* Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 66 does not have any impact on the School's financial statements.

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 and Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements:

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

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

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

Government-Wide Financial Statements (Continued):

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.

Fund Financial Statements:

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

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.

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

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with GAAP. 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 51.

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, 2016, based on historical experience, no allowance for doubtful accounts has been recorded.

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 rental payments and insurance premiums.

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 seven (7) 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.

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

Pensions

The School adopted Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Under Statements Nos. 68 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 7 and 8 for additional pension 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.

- 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."

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

Net Position / Fund Balances (Continued)

The School follows the provisions of GASB Statement No. 54. Statement No. 54 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.

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 2013.

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, 2016, 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.

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

Adoption of New Accounting Standards

During the year ended June 30, 2016, the School implemented GASB Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The School also implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* Statement No. 76 identifies the hierarchy of generally accepted accounting principles, in the context of the current governmental financial reporting environment. There is no effect on the School.

Pending Changes in Accounting Principles

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions of Statement No. 80 are effective for the School's June 30, 2017 financial statements. The effect of implementation has not yet been determined.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of Statement No. 82 are effective for the School's June 30, 2017 financial statements. The effect of implementation has not yet been determined.

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 22, 2016.

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, 2016 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's accounts are not covered under this act.

As of June 30, 2016, the custodial risk is as follows:

	Governmental Activities	Business-Type Activities	Component Unit
Uninsured and uncollateralized	$ 2,181,909	$ -	$ -
Collateralized	-	-	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	-	-	-
Total	$ 2,181,909	$ -	$ -

Reconciliation to the financial statements:

	Governmental Activities	Business-Type Activities	Component Unit
Cash exposed to custodial risk	$ 2,181,909	$ -	$ -
Plus: Insured amount	362,056	-	91,409
Less: Outstanding checks	(6,019)	-	-
	$ 2,537,946	$ -	$ 91,409

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 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, 2016, the rate for the School District of Philadelphia was $7,950 per year per student plus additional funding for special education students at a rate of $24,107 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 $12,078,522 for the year ended June 30, 2016.

NOTE 4 RECEIVABLES

Receivables at June 30, 2016, 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:

Receivables	Governmental Activities	Business-Type Activities
Federal	$ 197,641	$ 84,805
State	319,911	3,489
Local	2,061	-
Other	205	-
	$ 519,818	$ 88,294

NOTE 5 CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2016 was as follows:

Governmental Activities

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Leasehold improvements	$ 363,335	$ -	$ -	$ 363,335
Equipment	491,021	-	-	491,021
Furniture and fixtures	823,700	-	-	823,700
	1,678,056	-	-	1,678,056
Less: Accumulated depreciation	(1,150,838)	(261,783)	-	(1,412,621)
Capital assets, net	$ 527,218	$ (261,783)	$ -	$ 265,435

Depreciation expense for governmental activities for the year ended June 30, 2016 was $261,783.

Business –Type Activities

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Equipment	$ 247,084	$ -	$ -	$ 247,084
Less: Accumulated depreciation	(146,390)	(32,470)	-	(178,860)
Capital assets, net	$ 100,694	$ (32,470)	$ -	$ 68,224

Depreciation expense for business-type activities for the year ended June 30, 2016 was $32,470.

NOTE 6 LONG-TERM DEBT

During 2013, the School received a 48-month loan of $142,635 from Primo's Food Service to finance the food service equipment. The loan is non-interest bearing. This loan was paid off during the year ended June 30, 2016.

Changes in long-term debt were as follows for the year ended June 30, 2016:

Balance, July 1, 2015	$ 35,191
Additions	-
Repayments of Principal	(35,191)
Balance, June 30, 2016	$ -

NOTE 7 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.

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.

NOTE 7 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, 2016 was 25.00% 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 $980,180 for the year ended June 30, 2016.

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

At June 30, 2016, the School reported a liability of $18,669,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2015, the School's proportion was 0.0431 percent, which was a decrease of 0.0064 from its proportion measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the School recognized pension expense of $1,119,000. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 83,797
Net difference between projected and actual investment earnings	-	38,000
Changes in proportions	175,000	2,171,000
Contributions subsequent to the measurement date	980,180	-
	$ 1,155,180	$ 2,292,797

$980,180 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, 2017. 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,	
2016	$ (592,000)
2017	(592,000)
2018	(592,000)
2019	(335,000)
	$ (2,111,000)

NOTE 8 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, 2015 was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

- Actuarial cost method – Entry Age Normal – level % of pay
- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

The actuarial assumptions used in the June 30, 2014 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The Plan did not include an assumption for projected ad hoc postemployment benefit changes as they are not considered to be substantively automatic.

The long-term expected rate of return on pension plan investments was determined using a buildingblock 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.

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

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public markets global equity	22.5%	4.8%
Private markets (equity)	15.0%	6.6%
Private real estate	12.0%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3.0%	1.4%
TIPS	12.0%	1.1%
High yield bonds	6.0%	3.3%
Cash	3.0%	0.7%
Absolute return	10.0%	4.9%
Risk parity	10.0%	3.7%
MLPs/Infrastructure	5.0%	5.2%
Commodities	8.0%	3.1%
Financing (LIBOR)	-14.0%	1.1%
	100%	

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, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. 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.

NOTE 8 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 7.50%, 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 (6.50%) or one percentage point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
District's proportionate share of the net pension liability	$ 23,011,000	$ 18,669,000	$ 15,019,000

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.

Payable to the Pension Plan

At June 30, 2016, the School's governmental fund reported a payable of $714,331 for the outstanding amount of contributions to the pension plan and PSERS included in accrued payroll for the year ended June 30, 2016.

NOTE 9 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 $55,293 for the year ended June 30, 2016.

NOTE 10 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:

Year Ending June 30,	Amount
2017	$ 83,593
2018	86,519
2019	89,547
	$ 259,659

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, 2016, was $2,039,776. 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 $203,645.

Future minimum rentals under this lease are as follows:

Year Ending June 30,	Amount
2017	$ 2,041,026
2018	2,041,026
2019	2,039,776
2020	2,042,120
2021	2,042,901
2022-2026	10,208,604
2027-2031	10,203,202
2032-2036	10,202,468
2037-2041	10,205,555
2042	4,064,259
	$ 55,090,937

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, 2016, was $2,077,270.

NOTE 11 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 it 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 12 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, 2016. Prepaid expenses, the balance due from the proprietary fund and the balance due from BDO, as discussed in Note 14, are considered Nonspendable Funds in the amount of $2,188,358.

The General Fund has Assigned Funds in the amount of $1,133,504 assigned for the purpose of investment in the School's building.

NOTE 13 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016 is as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	$ 34,336	$ -
Enterprise Fund	-	34,336
	34,336	34,336

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

NOTE 14 RELATED PARTY TRANSACTIONS

The School guaranteed the debt of BDO and as of June 30, 2016, the School was not in compliance with the debt service coverage ratio as discussed in Note 18. A waiver was not requested, but an amendment request will be submitted to the bondholders' trustee for review. No approval has been received as of the date of the financial statements. Management presented the bonds payable as long term because written notice of failure has not been received, and the School will follow the procedures outlined in the bond documents to remedy the noncompliance, including contracting with a management consultant.

The School leases under an operating agreement, property which is located at 1840 Torresdale Avenue in Philadelphia, Pennsylvania from BDO as discussed in Notes 10 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, 2016, was $2,077,270.

NOTE 15 CONCENTRATIONS

Approximately 88% of the School's revenue results from funds received from the School District of Philadelphia based on the student enrollment.

NOTE 16 RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

During 2016, the School identified an error in the manner with which it had recognized rental expense pursuant to a long-term operating lease resulting in a decrease of unrestricted net assets of $690,033.

Unrestricted net assets as of June 30, 2015 have been restated to correct these errors as shown below:

	Governmental Activities
Net Position (Deficit), June 30, 2015, as Originally Stated	$ (14,999,231)
Adjustment For Correction Of An Error	(690,033)
Net Position (Deficit), July 1, 2015, as Restated	$ (15,689,264)

NOTE 17 SPECIAL ITEM – LOSS DUE TO MISAPPROPRIATION

The School has incurred a loss of approximately $224,000, due to the misappropriation of assets by its former third party payroll processor. This contracted payroll processor impounded, but failed to remit certain taxes to the taxing authorities, which resulted in untimely and nonpayment of the tax liabilities. The School, being ultimately responsible for the payment of all applicable tax liabilities, was accordingly required to pay the taxes, and related interest and penalties to the applicable taxing authorities.

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, 2016, 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.

Deferred Rental Income
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 "deferred rent income" in the accompanying statement of net position (deficit).

NOTE 18 COMPONENT UNIT (Continued)

Summary of Significant Accounting Policies (Continued)

Capital Assets
Capital assets 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:

Building and improvements	30 years

Bond Issuance Costs
Costs relating to the issuance of bonds are amortized over the terms of the bonds, using the straight line method. Amortization of bond settlement costs are included in interest expense. For the year ended June 30, 2016, the amount included as interest expense was $27,220. Future amortizations of bond issuance costs amount to $27,220 annually for 2017 through 2041 and $27,232 in 2042.

Original Issue Discount
Costs relating to the original issue discount of the revenue bond issuance is amortized on a straight line method. The unamortized portion is a reduction of the outstanding bond obligations. The unamortized portion as of June 30, 2016 was $579,279. Amortization of discount costs are included as interest expense. Amortization included as interest expense for the year ended June 30, 2016, was $22,280. Future amortizations of original issue discount amount to $22,280 annually for 2017 through 2041 and $22,279 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.

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, 2016 are 2013 through 2015, 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, 2016, 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.

NOTE 18 COMPONENT UNIT (Continued)

Restricted Cash - 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. All escrow deposits are considered temporarily restricted.

A summary of the principal escrow accounts held by the BDO as of June 30, 2016 is as follows:

		Amount
Debt Service Reserve Fund	$	2,085,386
Repair and Replacement Fund		180,144
Debt Service Fund		134,273
Paid Settlement Fund		7,844
Revenue Fund		1
	$	2,407,648

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, 2016, these investments consisted of the following:

		Amount
Mutual Funds	$	2,085,386
Cash Equivalents:		
Money Market Funds		322,262
	$	2,407,648

Investment return on these investments consisted of interest in the amount of $42,877, for the year ended June 30, 2016.

NOTE 18 COMPONENT UNIT (Continued)

Capital Assets

As of June 30, 2016, capital assets consisted of the following:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Building and improvements	$ 22,756,990	$ -	$ -	$ 22,756,990
Less: Accumulated depreciation	(1,515,926)	(758,566)	-	(2,274,492)
	$ 21,241,064	$ (758,566)	$ -	$ 20,482,498

Depreciation expense for the year ended June 30, 2016, was $758,566. All capital assets are pledged as collateral for the bonds payable.

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 5% - 6%. 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, 2016, the amount outstanding was $23,920,000, less an original issue discount of $579,279. During the year ended June 30, 2016, $290,000 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. BDO was not in compliance with the debt service coverage ratio as of June 30, 2016. A waiver was not requested, but an amendment request will be submitted to the bondholders' trustee for review. No approval has been received as of the date of the financial statements. Management presented the bonds payable as long term because written notice of failure has not been received, and the School will follow the procedures outlined in the bond documents to remedy the noncompliance, including contracting with a management consultant.

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

Year Ending June 30,	Principal	Interest	Total
2017	$ 310,000	$ 1,731,026	$ 2,041,026
2018	330,000	1,711,026	2,041,026
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
2022-2026	2,455,000	7,753,604	10,208,604
2027-2031	3,510,000	6,693,202	10,203,202
2032-2036	5,025,000	5,177,468	10,202,468
2037-2041	7,250,000	2,955,555	10,205,555
2042	3,915,000	149,259	4,064,259
	$ 23,920,000	$ 31,170,937	$ 55,090,937

NOTE 18 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 $2,333,482, which includes $2,039,776 of base rentals and amortized straight line rents of $90,061. 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 $203,645. Future minimum rentals under this lease are as follows:

Year Ending June 30,	Amount
2017	$ 2,041,026
2018	2,041,026
2019	2,039,776
2020	2,042,120
2021	2,042,901
Thereafter	44,884,088
	$ 55,090,937

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, 2016, was $2,077,270.

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, 2016, 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, 2016, 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, 2016, is generated from the School through direct leased property.

REQUIRED SUPPLEMENTARY INFORMATION

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	6/30/15	6/30/14	6/30/13
School's Proportion of the Net Pension Liability	0.0431%	0.0495%	0.0488%
School's Proportionate Share of the Net Pension Liability	$ 18,669,000	$ 19,593,000	$ 19,976,000
School's Covered-Employee Payroll	$ 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	336%	310%	319%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54%	57%	54%

SCHOOL CONTRIBUTIONS	6/30/16	6/30/15	6/30/14
Statutorily Required Contribution	$ 978,853	$ 1,106,203	$ 1,771,000
Contributions in Relation to the Statutorily Required Contribution	(978,853)	(1,106,203)	(1,771,000)
Contribution Deficiency (Excess)	$ -	$ -	$ -
School's Covered-Employee Payroll	$ 4,997,607	$ 5,562,013	$ 6,316,641
Contributions as a Percentage of Covered-Employee Payroll	19.59%	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 GOVERNMENTAL FUND BUDGETARY COMPARISON
JUNE 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
Local sources	$ 12,729,302	$ 12,108,911	$ 12,078,522	$ (30,389)
State sources	207,624	311,749	320,487	8,738
Federal sources	1,133,516	1,114,493	1,093,024	(21,469)
Other revenue	226,605	170,748	215,501	44,753
TOTAL REVENUES	14,297,047	13,705,901	13,707,534	1,633
EXPENDITURES				
Instruction	7,337,412	7,437,881	7,495,868	(57,987)
Support services	6,641,201	6,673,540	6,243,378	430,162
Non-instructional services	70,232	148,625	162,094	(13,469)
Debt Service	225,000	-	-	-
TOTAL EXPENDITURES	14,273,845	14,260,046	13,901,340	358,706
SPECIAL ITEMS				
Loss due to misappropriation	-	-	224,383	(224,383)
EXCESS OF REVENUES OVER EXPENDITURES	$ 23,202	$ (554,145)	(418,189)	$ 135,956
FUND BALANCE, BEGINNING OF YEAR			3,740,051	
FUND BALANCE, END OF YEAR			$ 3,321,862	

See accompanying notes to the financial statements.

SINGLE AUDIT

MARIANA BRACETTI ACADEMY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Grantor Program Title	Source Code	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Grant Period Beginning Date	Grant Period Ending Date	Total Received (Refunded) for the Year	Accrued or (Deferred) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued or (Deferred) Revenue at June 30, 2016
U.S. Department of Education, Passed-through the PA Department of Education											
Title I Grants to Local Educational Agencies	I	84.010	013-150994	$ 951,804	7/31/2014	9/30/2015	$ 142,756	$ 142,756	$ -	$ -	$ -
Title I Grants to Local Educational Agencies	I	84.010	013-160994	798,058	7/1/2015	9/30/2016	684,291	-	798,058	798,058	113,767
Total Title I Grants to Local Educational Agencies							827,047	142,756	798,058	798,058	113,767
Title II Improving Teacher Quality State Grants	I	84.367	020-150994	15,503	7/31/2014	9/30/2015	219	219	-	-	-
Title II Improving Teacher Quality State Grants	I	84.367	020-160994	14,826	7/1/2015	9/30/2016	15,134	-	14,826	14,826	(308)
Total Title II Improving Teacher Quality State Grants							15,353	219	14,826	14,826	(308)
Title III English Language Acquisition State Grants	I	84.365	010-150994	37,069	7/31/2014	9/30/2015	7,414	24,713	-	-	17,299
Title III English Language Acquisition State Grants	I	84.365	010-160994	32,434	7/1/2015	9/30/2016	24,949	-	32,434	32,434	7,485
Total Title III English Language Acquisition State Grants							32,363	24,713	32,434	32,434	24,784
U.S. Department of Education, Passed-through the School District of Philadelphia											
Special Education - Grants to States (IDEA, Part B)	I	84.027	N/A	230,022	7/1/2014	6/30/2015	43,111	43,111	-	-	-
Special Education - Grants to States (IDEA, Part B)	I	84.027	N/A	220,999	7/1/2015	6/30/2016	162,514	-	220,999	220,999	58,485
Total Special Education - Grants to States (IDEA, Part B)							205,625	43,111	220,999	220,999	58,485
Total U.S. Department of Education							1,080,388	210,799	1,066,317	1,066,317	196,728
U.S. Department of Agriculture, Passed-through the PA Department of Education											
National School Lunch Program - Food Commodities	I	10.555	362	N/A	7/1/2015	6/30/2016	43,428	-	43,428	43,428	-
National School Lunch Program	I	10.555	362	N/A	7/1/2014	6/30/2015	16,750	16,750	-	-	-
National School Lunch Program	I	10.555	362	N/A	7/1/2015	6/30/2016	407,130	-	476,220	476,220	69,090
School Breakfast Program	I	10.553	365	N/A	7/1/2014	6/30/2015	4,044	4,044	-	-	-
School Breakfast Program	I	10.553	365	N/A	7/1/2015	6/30/2016	76,055	-	91,771	91,771	15,716
Total Child Nutrition Cluster							547,407	20,794	611,419	611,419	84,806
Total U.S. Department of Agriculture							547,407	20,794	611,419	611,419	84,806
Total Expenditures of Federal Awards							$ 1,627,795	$ 231,593	$ 1,677,736	$ 1,677,736	$ 281,534

Source Codes Legend:
(D) Indicates direct funding
(I) Indicates indirect funding
(S) Indicates state matching funding

See accompanying notes to schedule of expenditures of federal awards

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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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, 2016, 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 22, 2016, which contained an explanatory paragraph related to the restatement for the correction of an error. 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.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. See Findings 2016-01 and 2016-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mariana Bracetti Academy Charter School's basic 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item Finding 2016-01.

Mariana Bracetti Academy Charter School's Response to Findings

Mariana Bracetti Academy Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Mariana Bracetti Academy Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Cantor Novak Beaver & Pilo, PC

Certified Public Accountants

Newtown, Pennsylvania
December 22, 2016

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, 2016. 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 the requirements of laws, regulations, contracts, and grants 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

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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, 2016.

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 Beaver & Pilo, PC

Certified Public Accountants

Newtown, Pennsylvania
December 22, 2016

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? __X__yes _____no
Significant deficiencies identified that are not considered to be material weakness(es)?
_____yes __X__none reported

Noncompliance material to financial statements noted? __X__yes _____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)	Name of Federal Program(s)
10.553 / 10.555	Child Nutrition Cluster
84.027	Special Education - Grants to States (IDEA, Part B)

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

Auditee qualified as low-risk auditee? __X__yes _____no

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2016-01:

Criteria: The School is responsible for the remittance of payroll tax liabilities to various taxing authorities within the time frames allowed by applicable laws and regulations of those taxing authorities.

Condition: The School delegated certain responsibilities to a contracted third party payroll company, including the processing of payroll and impounding and remittance of funds required to satisfy the applicable payroll tax liabilities. This contracted payroll company impounded, but failed to remit certain taxes to the taxing authorities, which resulted in untimely and nonpayment of the tax liabilities. The School, being ultimately responsible for the payment of all applicable tax liabilities, was accordingly required to pay the taxes, and related interest and penalties to the applicable taxing authorities.

Cause: Lack of sufficient oversight and monitoring of the third party payroll company, and the associated remittance of applicable payroll taxes.

Effect: Failure of the payroll processor to appropriately remit the payroll taxes resulted in unnecessary payments of additional payroll taxes, and associated interest and penalties, amounting to approximately $224,000.

Recommendation: We recommend that management set up internal control procedures to monitor the delegation of payroll processing to any third party, by reviewing applicable SOC 1 reports of the payroll processor and monitoring the timely remittance of payroll taxes through the available means, such as through the various government web sites. Additionally, all correspondences from the various taxing authorities should be received directly by the School and not the third party contractor.

Views of Responsible Officials and Planned Corrective Actions: The School agrees with these findings and recommendations. The School paid the required taxes, interest and penalties, and contracted with a new third party to process payroll and impound and remit the payroll taxes. The School has also set up procedures to monitor the payroll tax remittance process through various governmental websites or by contacting the governmental taxing authorities directly. The School has confirmed that all correspondences from the taxing authorities will be received directly by the School and not by the third party payroll provider. The Business Manager will report monthly on monitoring of tax payments to the board of trustees. The School is also modifying its policies and procedures regarding all contracts with vendors, requiring vendor insurance coverages to meet more stringent limits. Finally, the School is seeking abatement relief from penalties and refunding of interest paid with various taxing authorities. To date, abatement relief has been received in the amount of approximately $39,000.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2016-02

Criteria: Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

Condition: A material adjustment was identified and posted by management to adjust the School's accounting records to the appropriate balance. This adjustment related to the prior period net position (deficit) of the general fund which decreased the net position (deficit) by $690,033.

Cause: The School failed to correctly implement GASB 13, *Accounting for Operating Leases with Scheduled Rent Increases*.

Effect: As a result of this condition, the School's accounting records were initially misstated by amounts material to the financial statements.

Recommendation: The necessary adjustments should be made in the accounting records and appropriately presented in the financial statements.

View of Responsible Officials and Planned Corrective Actions: The School agrees with these findings and recommendations. All adjustments have been made by the School in the accounting records.

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.