

**MARIANA BRACETTI ACADEMY CHARTER  
SCHOOL  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2015**

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
FOR THE YEAR ENDED JUNE 30, 2015**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1 - 3
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4 - 7
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet - Governmental Fund	10
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures and Changes in the Fund Balance of the Governmental Fund	12
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in the Fund Balance to the Statement of Activities	13
Statement of Net Position - Proprietary Fund	14
Statement of Activities - Proprietary Fund	15
Statement of Cash Flows - Proprietary Fund	16
Notes to Financial Statements	17 - 32
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues, Expenditures and Changes in the Fund Balance - Budget and Actual	33
Schedule of the School's Proportionate Share of the Net Pension Liability	34
Schedule of School Contributions	35
<b>SINGLE AUDIT</b>	
Schedule of Expenditures of Federal Awards	36
Notes to Schedule of Expenditures of Federal Awards	37
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 <i>Government Auditing Standards</i>	38
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	40
Schedule of Findings and Questioned Costs	42 - 43



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Mariana Bracetti Academy Charter School

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

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of Mariana Bracetti Academy Charter School (a nonprofit organization) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Brazo de Oro Children's Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of Mariana Bracetti Academy Charter School as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Adoption of Accounting Pronouncements*

As discussed in Note 1, Mariana Bracetti Academy Charter School adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 4 - 7 and 33 - 35, respectively, 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 March 18, 2016, on our consideration of Mariana Bracetti Academy Charter School's internal control over financial reporting and 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

Philadelphia, Pennsylvania  
March 18, 2016

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

The Board of Trustees of 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 year ended June 30, 2015. We encourage readers to consider the information presented herein in conjunction with the School's financial statements.

**Financial Highlights**

- Total governmental revenues for the year ended June 30, 2015, were \$13,860,780, representing a decrease of \$812,027 from June 30, 2014.
- At June 30, 2015, the School reported an ending governmental fund balance of \$3,740,051, representing a decrease of \$117,113 from June 30, 2014. \$2,488,752 of the \$3,740,051 fund balance is assigned by the School for the debt service covenant.
- The School's cash balance at June 30, 2015, was \$2,585,853, representing an increase of \$391,662 from June 30, 2014.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the School's financial statements. The School's financial statements as presented comprise four components: (1) management's discussion and analysis (this section), (2) the basic financial statements, (3) the required supplementary information, and (4) the federal awards section.

***Government-Wide Financial Statements***

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

The statement of net position presents information on all of the School's assets and 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 changed during the most recent 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 periods (e.g. expenditures accrued in one year but paid in subsequent years, and depreciation).

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.

***Fund Financial Statements***

A fund is a group of related accounts that is 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: the governmental general fund and the proprietary fund.

See independent auditor's report.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**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 governmental fund budgetary comparison schedule is required supplementary information presented for purposes of additional analysis and is prepared using a basis consistent with accounting principles generally accepted in the United States of America ("GAAP") 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*.

***Government-Wide Financial Analysis***

Management has adopted Governmental Accounting Standards Board ("GASB") Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which requires a comparative analysis of current- and prior-year balances.

	June 30,	
	2015	2014
Current assets	\$ 5,523,182	\$ 5,827,016
Noncurrent assets	627,912	729,218
Total assets	6,151,094	6,556,234
Deferred outflows of resources	1,337,203	-
Current liabilities	1,436,925	2,034,144
Long-term liabilities	19,592,000	165,732
Total liabilities	21,028,925	2,199,876
Deferred inflows of resources	1,401,000	-
Net position:		
Net investment in capital assets	592,721	563,486
Unrestricted	(15,534,349)	3,792,872
Total net position	\$ (14,941,628)	\$ 4,356,358

As noted earlier, net position may serve over time as a useful indicator of a school's financial position. In the case of the School, liabilities and deferred inflows exceeded assets and deferred outflows by \$14,941,628 as of June 30, 2015.

See independent auditor's report.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

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

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

The School's revenues are predominately received from the School District of Philadelphia based on student enrollment. For the year ended June 30, 2015, the School's expenses of \$15,069,110 exceeded its revenues of \$14,438,425 by \$630,685.

	<u>2015</u>	<u>2014</u>
Revenues:		
Local educational agencies	\$ 12,130,500	\$ 12,476,812
Other sources	156,678	116,156
State sources	339,204	997,740
Federal sources	1,234,398	1,082,099
Food services	<u>577,645</u>	<u>585,104</u>
Total revenues	<u>14,438,425</u>	<u>15,257,911</u>
Expenditures:		
Other instructional programs	7,667,110	6,931,451
Pupil personnel services	443,440	499,923
Instructional staff services	172,104	355,142
Administrative services	1,829,978	1,879,949
Pupil health	104,554	102,932
Business services	484,339	467,809
Operation and maintenance of plant services	3,202,491	3,133,204
Other support services	291,096	374,517
Food services	459,379	623,714
Student activities	116,423	111,355
Interest expense	1,653	9,829
Depreciation expense	<u>296,543</u>	<u>263,619</u>
Total expenditures	<u>15,069,110</u>	<u>14,753,444</u>
Change in net position	<u>(630,685)</u>	<u>504,467</u>
Net position - beginning, as previously reported	4,356,358	3,851,891
Adjustment to beginning net position (Note 1)	<u>(18,667,301)</u>	<u>-</u>
Net position - beginning, as revised	<u>(14,310,943)</u>	<u>3,851,891</u>
<b>NET POSITION - ENDING</b>	<b><u>\$ (14,941,628)</u></b>	<b><u>\$ 4,356,358</u></b>

***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, the 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 year.

The general fund is the chief operating fund of the School. At the end of the current year, the unassigned fund balance of the general fund was \$1,251,299, while the total fund balance was \$3,740,051.

See independent auditor's report.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**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.

**New Accounting Pronouncement**

The School was required to adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, relative to its participation in the Commonwealth of Pennsylvania's Public Employees' Retirement System ("PSERS"). Charter schools are required to offer this retirement plan to their employees as a condition of their charter. The Commonwealth controls all aspects of the plan including assets and administration. The School makes contributions as defined by the Commonwealth. Historically, the School has recorded its contributions to the plan as expenses related to the performance of plan administration against its goals. The School recorded an adjustment to net assets of \$18,667,301 for the net liability as of June 30, 2014, as well as \$599,199 in expenses related to plan administrative performance in addition to the required contributions of \$1,172,801. All public schools in Pennsylvania who participate in PSERS are being required to record a proportionate share of the \$39,580,717,000 liability in their financial statements.

**Capital Assets and Debt Administration**

***Capital Assets***

As of June 30, 2015, the School's net investment in capital assets for its governmental activities and business-type activity totaled \$592,721 (net of accumulated depreciation and related debt). This investment in capital assets includes furniture, equipment, computers and software for the School along with leasehold improvements.

***Long-Term Debt***

At June 30, 2015, the School's governmental activities and business-type activity have notes payable totaling \$35,191.

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

The School does not foresee any substantial variations with next year's economic factors, budgets or rates.

**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 or requests for additional information should be addressed to: Chief Executive Officer, June 30, 2015, 1840 Torresdale Avenue, Philadelphia, PA 19124

**Component Unit**

Brazo de Oro Children's Foundation (the "Organization") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that the Organization is legally separate from the School. The complete financial statements of the Organization can be obtained at 1840 Torresdale Avenue, Philadelphia, PA 19124.

See independent auditor's report.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	Governmental Activities	Business-Type Activity	Total	Component Unit
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,585,853	\$ -	\$ 2,585,853	\$ 92,038
Restricted cash	-	-	-	2,325,062
Federal subsidies receivable	361,096	20,794	381,890	-
State subsidies receivable	228,667	866	229,533	-
Other receivables	2,809	-	2,809	-
Due from related parties	2,163,822	-	2,163,822	-
Due from other fund	13,427	-	13,427	-
Inventory	4,003	-	4,003	-
Prepaid expenses	141,845	-	141,845	-
Unearned rent	-	-	-	690,033
Intangible assets, net of accumulated amortization of \$81,661	-	-	-	734,952
Capital assets:				
Nondepreciable capital assets	-	-	-	344,068
Building and improvements	-	-	-	22,756,990
Leasehold improvements	363,335	-	363,335	-
Furniture and equipment	491,021	247,084	738,105	-
Computers and software	823,700	-	823,700	-
Less: accumulated depreciation	<u>(1,150,838)</u>	<u>(146,390)</u>	<u>(1,297,228)</u>	<u>(1,515,926)</u>
Total assets	<u>6,028,740</u>	<u>122,354</u>	<u>6,151,094</u>	<u>25,427,217</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions	<u>1,337,203</u>	<u>-</u>	<u>1,337,203</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	420,795	16,133	436,928	34,999
Salaries and benefits payable	842,564	-	842,564	-
Due to related parties	-	-	-	2,163,822
Due to general fund	-	13,427	13,427	-
Advances from grantors	108,815	-	108,815	-
Long-term obligations:				
Due within one year:				
Debt	-	35,191	35,191	-
Bonds payable	-	-	-	290,000
Due beyond one year:				
Bonds payable, net of original issue discount of \$601,559	-	-	-	23,318,441
Pension liability	<u>19,592,000</u>	<u>-</u>	<u>19,592,000</u>	<u>-</u>
Total liabilities	<u>20,964,174</u>	<u>64,751</u>	<u>21,028,925</u>	<u>25,807,262</u>
Commitments and contingencies (Notes 6, 7, 8, 9, 10, 11, 12 and 13)				
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions	<u>1,401,000</u>	<u>-</u>	<u>1,401,000</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	527,218	65,503	592,721	-
Unrestricted	<u>(15,526,449)</u>	<u>(7,900)</u>	<u>(15,534,349)</u>	<u>(380,045)</u>
Total net position	<u>\$ (14,999,231)</u>	<u>\$ 57,603</u>	<u>\$ (14,941,628)</u>	<u>\$ (380,045)</u>

See accompanying notes to financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Operating Grants and Contributions	Governmental Activities	Business-Type Activity	Total	Component Unit
Primary government						
Governmental activities:						
Other instructional programs	\$ 7,667,110	\$ 4,240,173	\$ (3,426,937)	\$ -	\$ (3,426,937)	\$ -
Pupil personnel services	443,440	21,743	(421,697)	-	(421,697)	-
Instructional staff services	172,104	-	(172,104)	-	(172,104)	-
Administrative services	1,829,978	-	(1,829,978)	-	(1,829,978)	-
Pupil health	104,554	-	(104,554)	-	(104,554)	-
Business services	484,339	-	(484,339)	-	(484,339)	-
Operation and maintenance of plant services	3,202,491	205,881	(2,996,610)	-	(2,996,610)	-
Other support services	291,096	-	(291,096)	-	(291,096)	-
Food services	-	-	-	(459,379)	(459,379)	-
Student activities	116,423	-	(116,423)	-	(116,423)	-
Interest expense	1,653	-	(1,653)	-	(1,653)	-
Depreciation expense	263,255	-	(263,255)	(33,288)	(296,543)	-
Total governmental activities	<u>\$ 14,576,443</u>	<u>\$ 4,467,797</u>	<u>(10,108,646)</u>	<u>(492,667)</u>	<u>(10,601,313)</u>	<u>-</u>
Component unit:						
Brazo de Oro Children's Foundation	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,635,685)</u>
General revenues:						
Local educational agencies			9,236,305	-	9,236,305	-
Food services			-	577,645	577,645	-
Rental income			-	-	-	2,181,280
All other revenue			156,678	-	156,678	42,294
Total general revenues			<u>9,392,983</u>	<u>577,645</u>	<u>9,970,628</u>	<u>2,223,574</u>
Change in net position			<u>(715,663)</u>	<u>84,978</u>	<u>(630,685)</u>	<u>(412,111)</u>
Net position - beginning			4,383,733	(27,375)	4,356,358	32,066
Cumulative effect of adoption of GASB 68			<u>(18,667,301)</u>	<u>-</u>	<u>(18,667,301)</u>	<u>-</u>
Net position - beginning, as revised			<u>(14,283,568)</u>	<u>(27,375)</u>	<u>(14,310,943)</u>	<u>32,066</u>
<b>NET POSITION - ENDING</b>			<u>\$ (14,999,231)</u>	<u>\$ 57,603</u>	<u>\$ (14,941,628)</u>	<u>\$ (380,045)</u>

See accompanying notes to financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2015**

	<u>General Fund</u>
<b><u>ASSETS</u></b>	
Cash and cash equivalents	\$ 2,585,853
State subsidies receivable	228,667
Federal subsidies receivable	361,096
Other receivables	2,809
Inventory	4,003
Prepaid expenses	141,845
Due from related parties	2,163,822
Due from other fund	<u>13,427</u>
Total assets	<u>\$ 5,501,522</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>	
Liabilities	
Accounts payable and accrued expenses	\$ 420,795
Salaries and benefits payable	1,231,861
Advances from grantors	<u>108,815</u>
Total liabilities	<u>1,761,471</u>
Fund balance	
Assigned	2,488,752
Unassigned	<u>1,251,299</u>
Total fund balance	<u>3,740,051</u>
Total liabilities and fund balance	<u>\$ 5,501,522</u>

See accompanying notes to financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

**Total fund balance for the governmental fund** \$ 3,740,051

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

Capital assets used in the governmental fund are not financial resources and, therefore, are not reported in the governmental fund. Those assets consist of:

Leasehold improvements	\$	363,335	
Furniture and equipment		491,021	
Computers and software		823,700	
Less: accumulated depreciation		<u>(1,150,838)</u>	
			527,218

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental fund. Balances at year end are:

Deferred outflows of resources related to pensions		1,337,203	
Deferred inflows of resources related to pensions		<u>(1,401,000)</u>	
			(63,797)

Long-term liabilities that pertain to the governmental fund, including net pension obligations, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position. This liability consists of:

Net pension liability, net of required contractual liability		<u>(19,202,703)</u>	
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**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ (14,999,231)**

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN THE FUND  
BALANCE OF THE GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>
Revenues:	
Local educational agencies	\$ 12,130,500
Other sources	156,678
State sources	339,204
Federal sources	<u>1,234,398</u>
Total revenues	<u>13,860,780</u>
Expenditures:	
Instruction	7,265,165
Support services	6,333,182
Non-instructional services	113,989
Debt service	70,320
Capital outlays	<u>195,237</u>
Total expenditures	<u>13,977,893</u>
Net change in fund balance	(117,113)
Fund balance - beginning	<u>3,857,164</u>
<b>FUND BALANCE - ENDING</b>	<b><u>\$ 3,740,051</u></b>

See accompanying notes to financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN THE FUND BALANCE TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

**Net change in fund balance - total governmental fund** \$ (117,113)

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

The governmental fund reports note proceeds as financing sources, while repayment of note principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities, and repayment of principal reduces the liability. The net effect of these differences in the treatment of notes payable is as follows:

Repayment of notes payable principal	68,667
--------------------------------------	--------

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense, as follows:

Capital outlays	195,237	
Depreciation expense	<u>(263,255)</u>	(68,018)

The governmental fund reports pension contributions as expenditures. However, in the statement of activities, the cost incurred for future pension benefits is reported as pension expense, as follows:

School pension contributions	(1,772,000)	
Cost of benefits earned net of employee contributions	<u>1,172,801</u>	<u>(599,199)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ (715,663)

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2015**

	Enterprise Fund
	Food Service Fund
<b>ASSETS</b>	
Current assets:	
Federal subsidies receivable	\$ 20,794
State subsidies receivable	866
Total current assets	21,660
Noncurrent assets:	
Capital assets:	
Equipment	247,084
Less: accumulated depreciation	(146,390)
Capital assets, net	100,694
Total assets	122,354
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued expenses	16,133
Long-term debt, current portion	35,191
Due to general fund	13,427
Total current liabilities	64,751
<b>NET POSITION</b>	
Net investment in capital assets	65,503
Unrestricted	(7,900)
Total net position	\$ 57,603

See accompanying notes to financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise Fund
	Food Service Fund
Operating revenues:	
Food service revenues	\$ <u>43,763</u>
Operating expenses:	
Food and supplies	459,379
Depreciation	<u>33,288</u>
Total operating expenses	<u>492,667</u>
Operating loss	<u>(448,904)</u>
Nonoperating revenues:	
Federal sources	511,939
State sources	<u>21,943</u>
Total nonoperating revenues	<u>533,882</u>
Change in net position	84,978
Net position - beginning	<u>(27,375)</u>
<b>NET POSITION - ENDING</b>	<b>\$ <u><u>57,603</u></u></b>

See accompanying notes to financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	Enterprise Fund
	Food Service Fund
Cash flows from operating activities:	
Cash received from students	\$ 43,953
Payments to suppliers	<u>(606,537)</u>
Net cash used in operating activities	<u>(562,584)</u>
Cash used in financing activities:	
Payments on long-term debt	<u>(61,874)</u>
Cash flows from noncapital financing activities	
Cash received from federal sources	580,212
Cash received from state sources	24,913
General fund transfer	<u>19,333</u>
Net cash provided by noncapital financing activities	<u>624,458</u>
Net change in cash	-
Cash - beginning	<u>-</u>
<b>CASH - ENDING</b>	<b><u>\$ -</u></b>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (448,904)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	33,288
Changes in operating assets and liabilities:	
Accounts payable	<u>(146,968)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b><u>\$ (562,584)</u></b>

See accompanying notes to financial statements.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**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"), and is operating under a charter school contract through 2019, which can be renewed for an additional term. The School is located in Philadelphia, Pennsylvania. During the 2014-2015 school year, the School served children in grades 6 through 12.

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 No. 14, *The Financial Reporting Entity*. 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 School follows GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34*. Statement No. 61 provides additional criteria for classifying entities as component units to better assess the accountability of school officials by ensuring that the financial reporting entity includes only organizations for which the officials are financially accountable or that are determined by the government to be misleading to exclude.

The School follows GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. Statement No. 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

Component Unit

Brazo de Oro Children's Foundation (the "Organization") is a legally separate, tax-exempt component unit of the School. The Organization was organized to acquire and support the School's facilities. Although the School does not control the timing or amounts of receipts from the Organization, the majority of resources, and income thereon, that the Organization holds are restricted to the activities of the School. Because these restricted resources held by the Organization can only be used by, or for the benefit of, the School, the Organization is considered a component unit of the School and is discretely presented in the School's financial statements.

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. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure. Statement No. 62 does not have any impact on the School's financial statements.

The Organization is accounted for under GAAP as applied to not-for-profit entities and uses the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred.

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. These financial statements include the financial activities of the primary government.

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

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

*Government-wide financial statements*

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

*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.

The School reports the following major governmental fund:

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

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 and services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third-party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

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

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

Net Position

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, classifies net position into three components - net investment in capital assets; restricted; and unrestricted.

These classifications are defined as follows:

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

Fund Balance Classification Policies and Procedures

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

- Nonspendable - This category is for amounts that can not be spent because they are either (1) not in spendable form or (2) legally or contractually required to remain intact.
- Restricted - This category is the part of the fund balance that is restricted to be spent for a specific purpose. The constraints on these amounts must be externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or by enabling legislation.
- Committed - This category is the portion of the fund balance that can only be used for specific purposes as a result of formal action by the School's highest level of authority.
- Assigned - This category reflects funds that the School intends to use for a specific purpose but are not considered restricted or committed.
- Unassigned - This category represents the part of the spendable fund balance that has not been categorized as nonspendable, restricted, committed or assigned.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

Budgets and Budgetary Accounting

The School adopts an annual budget on a basis consistent with GAAP 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 33.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The School's cash consists of cash on hand and demand deposits. For purposes of the statement of cash flows, the proprietary fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Prepaid Expenses

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

Receivables

Receivables primarily consist of amounts due from the Pennsylvania Department of Education for federal and state grants and subsidies. Receivables are stated at the amount management expects to collect. As of June 30, 2015, based on historical experience, no allowance has been established.

Capital Assets

Capital assets, which include leasehold improvements and furniture and equipment, are reported in the government-wide financial statements. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School maintains a threshold level of \$2,500 for capitalizing assets. The School does not possess any infrastructure. The infrastructure is owned by the Organization, which is presented discretely. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are expensed. Capital assets of the School are depreciated using the straight-line method over the useful lives of the assets, which range from three to seven years.

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.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

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

Deferred Outflows/Inflows of Resources (Continued)

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.

Advertising Costs

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

Income Tax Status

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

Uncertain Tax Positions

The School accounts for uncertainty in income taxes in which tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of June 30, 2015, the School had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the School had no interest or penalties related to income taxes.

The School files an income tax return in the U.S. federal jurisdiction. With few exceptions, the School is no longer subject to U.S. federal tax examinations by taxing authorities for years before June 30, 2012.

Pensions

During the year, 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*, which reduced beginning net position by \$18,667,301 Under Statements No. 68 and 71, for purposes of measuring the 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 Employees' Retirement System (the "PSERS") and additions to/deductions from the PSERS's fiduciary net position have been determined on the same basis as they are reported by the PSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms and investments are reported at fair value.

Pending Changes in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. In June 2015, the GASB issued 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. The provisions of Statements Nos. 72 and 76 are effective for the School's June 30, 2016 financial statements. The effect of implementation has not yet been determined.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

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

Subsequent Events

The School has evaluated subsequent events through March 18, 2016, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**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 custodial credit risk by periodically reviewing the Federal Deposit Insurance Corporation's ("FDIC") limits and published credit ratings of its depository banks. Accounts are insured by the FDIC up to \$250,000 for all accounts kept at one financial institution. Under Pennsylvania Act 72, financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School's accounts are covered under this act.

As of June 30, 2015, the custodial risk is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Component Unit</u>
Uninsured and uncollateralized	\$ -	\$ -	\$ 2,075,062
Collateralized	-	-	-
Uninsured and collateral pledged by the bank not in the School's name	<u>2,384,613</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,384,613</u>	<u>\$ -</u>	<u>\$ 2,075,062</u>

Reconciliation to the financial statements:

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>	<u>Component Unit</u>
Cash exposed to custodial risk	\$ 2,384,613	\$ -	\$ 2,075,062
Plus: insured amount	356,350	-	344,405
Less: outstanding checks	<u>(155,110)</u>	<u>-</u>	<u>(2,367)</u>
	<u>\$ 2,585,853</u>	<u>\$ -</u>	<u>\$ 2,417,100</u>

**NOTE 3. RECEIVABLES**

Receivables at June 30, 2015, consisted of subsidies from federal, state, and local sources. All receivables are considered collectible due to the stable condition of the state and private programs.

A summary of receivables is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activity</u>
Federal	\$ 361,096	\$ 20,794
State	228,667	866
Local	<u>2,809</u>	<u>-</u>
	<u>\$ 592,572</u>	<u>\$ 21,660</u>

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 4. LOCAL EDUCATIONAL 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. For each non-special education student enrolled, charter schools receive 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, 2015, the rate for most of the students was \$7,990 per year per student, plus additional funding for special education students and transportation. The annual rate is paid monthly and is prorated if a student enters or leaves during the year. Total revenue from student enrollment was \$12,130,500 for the year ended June 30, 2015.

**NOTE 5. CAPITAL ASSETS, NET**

Capital asset activity for the year ended June 30, 2015, was as follows:

Governmental activities:

	Balance - July 1, 2014	Additions	Disposals	Balance - June 30, 2015
Leasehold improvements	\$ 231,335	\$ 132,000	\$ -	\$ 363,335
Furniture and equipment	427,784	63,237	-	491,021
Computers and software	823,700	-	-	823,700
Less: accumulated depreciation	<u>(887,583)</u>	<u>(263,255)</u>	<u>-</u>	<u>(1,150,838)</u>
Capital assets, net	<u>\$ 595,236</u>	<u>\$ (68,018)</u>	<u>\$ -</u>	<u>\$ 527,218</u>

Depreciation expense for the year ended June 30, 2015, was \$263,255.

Business-type activity:

	Balance July 1, 2014	Additions	Disposals	Balance June 30, 2015
Equipment	\$ 247,084	\$ -	\$ -	\$ 247,084
Less: accumulated depreciation	<u>(113,102)</u>	<u>(33,288)</u>	<u>-</u>	<u>(146,390)</u>
Capital assets, net	<u>\$ 133,982</u>	<u>\$ (33,288)</u>	<u>\$ -</u>	<u>\$ 100,694</u>

Depreciation expense for the year ended June 30, 2015, was \$33,288.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 6. LONG-TERM DEBT**

Business-Type Activities

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. The balance of the loan at June 30, 2015, was \$35,191. Future maturities of long-term debt are as follows:

<u>Year ending June 30:</u>	
2016	\$ <u>35,191</u>

Changes in long-term debt were as follows for the year ended June 30, 2015:

Balance, July 1, 2014	\$ 97,065
Additions	-
Repayments of principal	<u>(61,874)</u>
Balance, June 30, 2015	\$ <u>35,191</u>

Component Unit:

As described in Note 13, the School guarantees the debt of the Organization and is subject to certain financial and reporting covenants. Subsequent to June 30, 2015, the School was not in compliance with its reporting covenant. Debt has been presented as long-term because written notice of failure has not been received and the School remedied the noncompliance by submitting these financial statements to the Trustee in accordance with the Loan and Trust Agreement.

**NOTE 7. RELATED-PARTY TRANSACTIONS AND FACILITY LEASING ARRANGEMENTS**

On December 1, 2011, the School entered into a 30-year non-cancelable lease with the Organization for the rental of its building at 1840 Torresdale Avenue. Base rentals are due in increasing amounts over the term of the lease. The lease is set to expire December 15, 2041.

During the year ended June 30, 2015, rent expense under the lease was \$2,096,730.

Future minimum lease payments under the operating lease as of June 30, 2015, are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2016	\$ 2,039,776
2017	2,041,026
2018	2,041,026
2019	2,039,776
2020	2,042,120
2021-2025	10,208,430
2026-2030	10,207,169
2031-2035	10,199,843
2036-2040	10,204,719
2041-2042	<u>6,106,828</u>
	<u>\$ 57,130,713</u>

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8.     RETIREMENT PLAN**

Plan Description

The School contributes to a governmental cost-sharing, multiple-employer defined benefit pension plan administered by the PSERS, which provides retirement and disability benefits, legislative-mandated ad-hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants. The members eligible to participate in the PSERS 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 the Commonwealth of Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 PA.C.S. 8101-8535) (the "Code") assigns the authority to establish and amend benefit provisions to the PSERS. The PSERS issues an annual financial report that can be obtained at [www.psers.state.pa.us](http://www.psers.state.pa.us).

Benefits provided

The PSERS provides retirement, disability, and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 ("Act 120") preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E ("Class T-E") and Membership Class T-F ("Class T-F"). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 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 Class 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 2.00% or 2.50%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

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

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 8. RETIREMENT PLAN (CONTINUED)**

Contributions

The contribution policy is established in the Code and requires contributions by active members, employers and the Commonwealth.

Member contributions are as follows:

- Active members who joined the PSERS 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 PSERS prior to, 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 PSERS after June 30, 2001 and before July 1, 2011, contribute at 7.50% (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 PSERS after June 30, 2011, may choose between two classes of membership and, therefore, two different base contribution rates that are subject to a limited fluctuation based on a "shared risk" provision in Act 120. Class T-E members have a base employee contribution rate of 7.5%, with shared risk contribution rate levels from 7.5% through and including 9.5%. Class T-F members have a base employee contribution rate of 10.3%, with shared risk contribution rate levels from 10.3% through and including 12.3%.

With the "shared risk" program, members benefit when investments of the fund are doing well and share some of the risk when investments underperform. Class T-E or T-F contribution rates will stay within the specified range, but may increase or decrease by 0.5% within the specified range once every three years, starting July 2015. The contribution rates for these two membership classes will never go below the base rate or above the highest percentage rate.

The School's contractually required contribution rate for fiscal year ended June 30, 2015, was 21.4% 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 for the years ended June 30, 2015, 2014 and 2013 amounted to \$1,172,801, \$1,073,724 and \$771,573 respectively.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 9. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

At June 30, 2015, the School reported a liability of \$19,592,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the PSERS's total pension liability as of June 30, 2013 to June 30, 2014. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School's proportion was 0.0495%, which was an increase of 0.0007% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School recognized pension expense of \$1,772,000. At Mariana Bracetti Academy Charter School, 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	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	(1,401,000)
Changes in proportions	231,000	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	1,106,203	-
	\$ 1,337,203	\$ (1,401,000)

\$1,106,203 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30:</u>	
2016	\$ (295,000)
2017	(295,000)
2018	(295,000)
2019	(295,000)
2020	10,000
	\$ (1,170,000)

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 9. 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, 2014, was determined by rolling forward the PSERS's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014, 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, 2013 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 PSERS's Board of Trustees at its March 11, 2011 board meeting, and were effective beginning with the June 30, 2011 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future 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 PSERS's policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS's Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 9. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)**

Actuarial assumptions (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	19 %	5.0 %
Private markets (equity)	21 %	6.5 %
Private real estate	13 %	4.7 %
Global fixed income	8 %	2.0 %
U.S. long treasuries	3 %	1.4 %
Treasury inflation-protected securities	12 %	1.2 %
High yield bonds	6 %	1.7 %
Cash	3 %	0.9 %
Absolute return	10 %	4.8 %
Risk parity	5 %	3.9 %
Master limited partnerships/Infrastructure	3 %	5.3 %
Commodities	6 %	3.3 %
Financing (LIBOR)	(9) %	1.1 %
	<u>100 %</u>	

The above was the PSERS's Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2014.

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 PSERS'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.

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	6.50%	7.50%	8.50%
The School's proportionate share of the net pension liability	\$ <u>24,439,000</u>	\$ <u>19,592,000</u>	\$ <u>15,455,000</u>

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 9. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)**

Pension plan fiduciary net position

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

**NOTE 10. ALTERNATIVE RETIREMENT PLAN**

During the fiscal year ended June 30, 2015, the School established an employer-sponsored deferred compensation defined contribution plan (the "Plan"). This retirement plan provides for salary deferrals pursuant to section 403(b) of the Internal Revenue Code. The Plan covers all full-time employees who are not participating in the PSERS Retirement Plan. Employees of the School contribute 5% of their salary and the School also contributes 5% to the Plan on the employee's behalf. Retirement contributions by the School for the year ended June 30, 2015, amounted to \$27,492.

**NOTE 11. GRANT CONTINGENCIES**

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.

**NOTE 12. LITIGATION**

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

**NOTE 13. COMPONENT UNIT**

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

Capital Assets

As of June 30, 2015, the Organization's latest reporting period, its capital assets consisted of the following:

Land	\$ 344,068
Building and improvements	22,756,990
Less: accumulated depreciation	<u>(1,515,926)</u>
	<u>\$ 21,585,132</u>

Depreciation expense for the year ended June 30, 2015, was \$758,566.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 13. COMPONENT UNIT (CONTINUED)**

Long-term Debt

In 2011, the Organization borrowed \$24,740,000 for purchase and improvements of a new building. The bond, which is guaranteed by the School, is payable in semi-annual payments of principal and interest totaling approximately \$2,040,000 per year bearing interest ranging from 1.5 - 7.5%. At June 30, 2015, the balance payable on the bond was \$24,210,000, less an original issue discount of \$601,559. The bond matures in June 2042.

Future principal repayments of long-term debt are as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 290,000	\$ 1,749,776	\$ 2,039,776
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
2021-2025	2,290,000	7,918,430	10,208,430
2026-2030	3,270,000	6,937,169	10,207,169
2031-2035	4,675,000	5,524,843	10,199,843
2036-2040	6,725,000	3,479,719	10,204,719
2041-2042	<u>5,595,000</u>	<u>511,828</u>	<u>6,106,828</u>
	<u>\$ 24,210,000</u>	<u>\$ 32,920,713</u>	<u>\$ 57,130,713</u>

Following are changes in long-term debt for the year ended June 30, 2015:

	<u>Balance July</u>		<u>Balance June</u>	<u>Amount Due</u>
	<u>1, 2014</u>	<u>Additions</u>	<u>30, 2015</u>	<u>in One Year</u>
Notes payable	<u>\$ 24,485,000</u>	<u>\$ -</u>	<u>\$ (275,000)</u>	<u>\$ 24,210,000</u>
				<u>\$ 290,000</u>

Interest expense amounted to \$1,767,433 for the year ended June 30, 2015. The Organization has specific covenants regarding its long-term debt. At June 30, 2015, all financial covenants were met. The Organization was not in compliance with a nonfinancial reporting covenant at June 30, 2015, which it cured within the allotted grace period as defined in the agreement.

Related-Party Transactions

The School makes and receives advances in the normal course of operations from the Organization. The amount due to the School as of June 30, 2015 was \$2,163,822. These advances, which are non-interest bearing, do not have stated repayment terms.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN THE FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local educational agencies	\$ 12,116,608	\$ 12,150,230	\$ 12,130,500	\$ (19,730)
Other sources	160,061	282,808	156,678	(126,130)
State sources	1,067,929	311,034	339,204	28,170
Federal sources	<u>1,174,007</u>	<u>1,198,442</u>	<u>1,234,398</u>	<u>35,956</u>
Total revenues	<u>14,518,605</u>	<u>13,942,514</u>	<u>13,860,780</u>	<u>(81,734)</u>
Expenditures:				
Instruction	7,357,567	7,228,887	7,265,165	36,278
Support services	6,914,383	6,826,987	6,333,182	(493,805)
Non-instructional services	87,906	87,906	113,989	26,083
Debt service	225,000	225,000	70,320	(154,680)
Capital outlays	<u>-</u>	<u>-</u>	<u>195,237</u>	<u>195,237</u>
Total expenditures	<u>14,584,856</u>	<u>14,368,780</u>	<u>13,977,893</u>	<u>(390,887)</u>
Net change in fund balance	(66,251)	(426,266)	(117,113)	309,153
Fund balance - beginning	<u>3,857,164</u>	<u>3,857,164</u>	<u>3,857,164</u>	<u>-</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 3,790,913</u>	<u>\$ 3,430,898</u>	<u>\$ 3,740,051</u>	<u>\$ 309,153</u>

See independent auditor's report.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
TEACHERS' PENSION PLAN  
Last 10 Fiscal Years\***

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
School's proportion of the net pension liability	0.0495 %	0.0488 %
School's proportionate share of the net pension liability	\$ 19,593,000	\$ 19,976,000
School's covered-employee payroll	\$ 6,316,641	\$ 6,261,568
School's proportionate share of the net pension liability as a percentage of its covered-employee payroll	310.18 %	319.03 %
Plan fiduciary net position as a percentage of the total pension liability	57.24 %	54.49 %

**\*Until a full 10-year trend is compiled, the School has presented information for those years for which information is available.**

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
SCHEDULE OF SCHOOL CONTRIBUTIONS  
TEACHERS' PENSION PLAN  
Last 10 Fiscal Years\***

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually required contribution	\$ 1,172,801	\$ 1,073,724
Contributions in relation to the contractually required contribution	<u>(783,504)</u>	<u>(1,073,724)</u>
Contribution deficiency	\$ <u>(389,297)</u>	\$ <u>-</u>
School's covered-employee payroll	\$ 6,316,641	\$ 6,261,568
Contributions as a percentage of covered-employee payroll	18.57 %	17.15 %

**\*Until a full 10-year trend is compiled, the School has presented information for those years for which information is available.**

**SINGLE AUDIT**

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2015**

<u>Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>			
Passed-through the Pennsylvania Department of Education			
National School Lunch Program	10.555	362	\$ 432,917
School Breakfast Program	10.553	365	<u>79,022</u>
Total Child Nutrition Cluster			<u>511,939</u>
Total U.S. Department of Agriculture			<u>511,939</u>
<b><u>U.S. Department of Education</u></b>			
Passed-through the Pennsylvania Department of Education			
Title I Grants to LEAs	84.010	013-150994	951,804
Improving Teacher Quality State Grants	84.367	020-150901	15,503
Language Instruction for Immigrant Students	84.365	010-150984	<u>37,069</u>
Total Passed-through Pennsylvania Department of Education			1,004,376
Passed-through the School District of Philadelphia			
Special Education Grants to States	84.027	N/A	<u>230,022</u>
Total U.S. Department of Education			<u>1,234,398</u>
Total Federal Awards			<u>\$ 1,746,337</u>

See accompanying notes to schedule of expenditures of federal awards.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE 1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of Mariana Bracetti Academy Charter School (the "School"). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 to the School's financial statements.

**NOTE 3. PROGRAM CLUSTERS**

In accordance with Subpart A105 of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
<b>Child Nutrition Cluster</b>	
School Breakfast Program	10.553
National School Lunch Program	10.555



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**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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of Mariana Bracetti Academy Charter School (a nonprofit organization) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Mariana Bracetti Academy Charter School's basic financial statements, and have issued our report thereon dated March 18, 2016. 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, 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency, which is described in the accompanying schedule of findings and questioned costs as item 2015-01 on pages 42 - 43.

### **Mariana Bracetti Academy Charter School's Response to Finding**

Mariana Bracetti Academy Charter School's response to the finding 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.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania  
March 18, 2016



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees  
Mariana Bracetti Academy Charter School

**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 *U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on Mariana Bracetti Academy Charter School's major federal program for the year ended June 30, 2015. Mariana Bracetti Academy Charter School's major federal program is 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 program.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Mariana Bracetti Academy Charter School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mariana Bracetti Academy Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, Mariana Bracetti Academy Charter School complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2015.

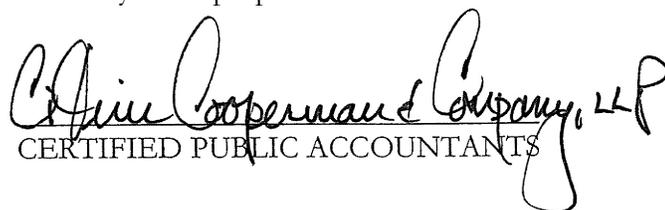
### **Report on Internal Control Over Compliance**

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 of compliance, we considered Mariana Bracetti Academy Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania  
March 18, 2016

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2015**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Mariana Bracetti Academy Charter School (the "School").
2. There was one significant deficiency relating to the financial statements which was reported in the 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*, and described below.
3. No instances of noncompliance material to the financial statements of the School were disclosed during the audit.
4. No significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report for Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for each major federal award program for the School expresses an unqualified opinion.
6. There were no audit findings that were required to be reported under section 510(a) of OMB Circular A-133.
7. The program tested as a major program was Title I Grants to LEAs, CFDA #84.010.
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. The School does not qualify as a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**Finding 2015-01**

Criteria:

Allowable costs are required to be supported by appropriate documentation.

Condition:

The School did not obtain an agreement for the financing of equipment purchased for its food service operation.

Effect:

Failure to meet the requirements may result in unauthorized payments.

Cause:

Oversight resulted in the purchase of equipment without a signed agreement.

Recommendation:

We recommend that management obtain the financing agreement to support the timing and amount of payments being made.

**MARIANA BRACETTI ACADEMY CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2015**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (CONTINUED)**

**Finding 2015-01 (Continued)**

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Management has updated and strengthened its policies and procedures over internal control and procurement.

**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 OMB Circular A-133.