

**MATHEMATICS, SCIENCE AND TECHNOLOGY
COMMUNITY CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Mathematics, Science and Technology Community 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 Mathematics, Science and Technology Community Charter School (a nonprofit organization) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Mathematics, Science and Technology Community 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 Isaac Newton Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Mathematics, Science and Technology Community Charter School as of June 30, 2014, 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 Note 8 to the financial statements, Mathematics, Science and Technology Community Charter School is currently operating without a signed renewal charter. Currently, Mathematics, Science and Technology Community Charter School is in negotiations regarding its renewal charter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and page 48 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 Mathematics, Science and Technology Community Charter School's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by the 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 were 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 December 22, 2014 on our consideration of Mathematics, Science and Technology Community 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 the 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 Mathematics, Science and Technology Community Charter School's internal control over financial reporting and compliance.



Certified Public Accountants

Newtown, Pennsylvania
December 22, 2014

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The Board of Trustees of the Mathematics, Science and Technology Community 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, 2014. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

Financial Highlights

- The assets of Mathematics, Science and Technology Community Charter School exceeded its liabilities and deferred outflows and inflows at the close of the fiscal year by \$18,050,441 (net position).
- Total general fund revenues for the fiscal year ended June 30, 2014 were \$16,263,918, representing an increase of \$1,453,694 from June 30, 2013.
- The School's general fund cash balance as of June 30, 2014 was \$9,568,389, representing a cash increase of \$711,714 from June 30, 2013.

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 Isaac Newton Foundation, Inc. ("INF"). 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 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 charges students a reduced fee for 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 three fund types, governmental fund, the proprietary fund and the fiduciary agency 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 charges students for services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the School's enterprise fund (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to the Financial Statements

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

Supplementary Information

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

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Overview of the Financial Statements (Continued)

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 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, which requires a comparative analysis of current and prior periods. This includes the School activities and does not include the discretely reported component unit.

	<u>2014</u>	<u>2013</u>
ASSETS		
Other assets	\$ 19,596,665	\$ 18,505,836
Capital assets, net	<u>538,181</u>	<u>481,926</u>
TOTAL ASSETS	<u>20,134,846</u>	<u>18,987,762</u>
LIABILITIES		
Other liabilities	<u>2,084,405</u>	<u>1,850,910</u>
TOTAL LIABILITIES	<u>2,084,405</u>	<u>1,850,910</u>
NET POSITION		
Invested in capital assets	538,181	481,926
Unrestricted	<u>17,512,260</u>	<u>16,654,926</u>
TOTAL NET POSITION	<u>\$ 18,050,441</u>	<u>\$ 17,136,852</u>

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the School, assets exceeded liabilities by \$18,050,441 as of June 30, 2014, an increase of \$913,589 from June 30, 2013.

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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, 2014, the School's total revenues of \$16,715,553 exceeded expenditures of \$15,801,964 by \$913,589.

	<u>2014</u>	<u>2013</u>
REVENUES		
Local sources	\$ 13,760,404	\$ 12,761,163
State sources	982,971	812,569
Federal sources	1,395,435	1,236,498
Food services	207,562	199,765
Other revenue	<u>369,181</u>	<u>235,330</u>
TOTAL REVENUES	<u>16,715,553</u>	<u>15,245,325</u>
EXPENDITURES		
Instruction	8,323,903	7,602,065
Support services	6,559,574	6,163,982
Non-instructional services	344,060	314,938
Food services	380,118	367,041
Depreciation	<u>194,309</u>	<u>218,022</u>
TOTAL EXPENDITURES	<u>15,801,964</u>	<u>14,666,048</u>
CHANGE IN NET ASSETS	913,589	579,277
NET POSITION, BEGINNING OF YEAR	<u>17,136,852</u>	<u>16,557,575</u>
NET POSITION, END OF YEAR	<u>\$ 18,050,441</u>	<u>\$ 17,136,852</u>

Overview of the Financial Statements (Continued)

Government-Wide Financial Analysis (Continued)

Governmental Fund

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

The School's governmental fund (the general fund) reported an ending fund balance of \$17,368,764 at June 30, 2014.

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, 2014, the School's investment in capital assets for its governmental activities and business-type activities totaled \$507,517 and \$30,664 (net of accumulated depreciation), respectively. This investment in capital assets includes leasehold improvements, vehicles, classroom and office furniture and computer equipment.

Major capital asset purchases during the year included the following:

- Capital expenditures of \$149,240 for leasehold improvements
- Capital expenditures of \$79,785 for equipment
- Capital expenditures of \$36,051 for furniture and fixtures

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

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 decrease by 1.76% for fiscal year 2014-2015, due to an decrease in the 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 26.40% for the fiscal year 2014-2015. Finally, the state's PSERS reimbursement subsidy is no longer available beginning with the fiscal year 2014-2015, which represents a loss in state funding of approximately \$1,114,000.

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, Mathematics, Science and Technology Community Charter School, 1800 East Byberry Road, Philadelphia, PA 19116.

Component Unit

Isaac Newton Foundation, Inc. ("INF") is a component unit of the School and is reported in a separate column in the government-wide financial statements to emphasize that INF is legally separate from the School. Complete financial statements of Isaac Newton Foundation can be obtained at 601 Route 73 North, Suite 302, Marlton, NJ 08053-3408.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 9,568,389	\$ 272,672	\$ 9,841,061	\$ 719,620
Cash - Restricted	7,703	-	7,703	-
State subsidies receivable	531,696	2,389	534,085	-
Federal subsidies receivable	198,216	35,170	233,386	-
Local subsidies receivable	99,232	-	99,232	-
Other receivables	15,021	-	15,021	-
Prepaid expenses, current portion	818,445	40,324	858,769	-
Internal balances	<u>195,872</u>	<u>(195,872)</u>	<u>-</u>	<u>-</u>
TOTAL CURRENT ASSETS	11,434,574	154,683	11,589,257	719,620
Bond settlement costs, net	-	-	-	258,463
Capital assets, net	507,517	30,664	538,181	21,898,258
Due from component unit	1,338,322	-	1,338,322	-
Escrow deposits	-	-	-	2,591,303
Land	-	-	-	1,500,000
Original issue discount, net	-	-	-	270,670
Prepaid expenses, net of current portion	<u>6,669,086</u>	<u>-</u>	<u>6,669,086</u>	<u>-</u>
TOTAL ASSETS	<u>19,949,499</u>	<u>185,347</u>	<u>20,134,846</u>	<u>27,238,314</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	423,368	11,187	434,555	105,978
Accrued salaries and benefits	1,319,229	-	1,319,229	-
Interest payable	-	-	-	356,146
Bonds payable, current portion	-	-	-	320,000
Deferred revenue, current portion	-	-	-	540,000
Due to student and parent groups	285,320	-	285,320	-
Refundable advances	<u>45,301</u>	<u>-</u>	<u>45,301</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	2,073,218	11,187	2,084,405	1,322,124
Bonds payable, net of current portion	-	-	-	14,365,000
Deferred revenue, net of current portion	-	-	-	6,669,086
Due to general fund (related party)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,338,322</u>
TOTAL LIABILITIES	<u>2,073,218</u>	<u>11,187</u>	<u>2,084,405</u>	<u>23,694,532</u>
COMMITMENTS AND CONTINGENCIES (NOTES 7, 8 & 13)				
NET POSITION				
Invested in capital assets, net of related debt	507,517	30,664	538,181	-
Unrestricted	17,368,764	143,496	17,512,260	952,479
Temporarily restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,591,303</u>
TOTAL NET POSITION	<u>\$ 17,876,281</u>	<u>\$ 174,160</u>	<u>\$ 18,050,441</u>	<u>\$ 3,543,782</u>

See accompanying notes to the financial statements.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	Unit
							INF
GOVERNMENTAL ACTIVITIES							
Instruction							
Regular instruction programs	\$ 6,758,076	\$ -	\$ 266,514	\$ (6,491,562)	\$ -	\$ (6,491,562)	\$ -
Special instruction programs	1,525,972	-	260,467	(1,265,505)	-	(1,265,505)	-
Other instructional programs	39,855	-	-	(39,855)	-	(39,855)	-
Support services							
Pupil personnel	487,822	-	246,482	(241,340)	-	(241,340)	-
Instructional staff	663,834	-	324,927	(338,907)	-	(338,907)	-
Administration	1,436,945	-	-	(1,436,945)	-	(1,436,945)	-
Pupil health	184,559	-	-	(184,559)	-	(184,559)	-
Business	254,797	-	-	(254,797)	-	(254,797)	-
Operation and maintenance of plant services	3,041,938	-	-	(3,041,938)	-	(3,041,938)	-
Central	489,679	-	57,487	(432,192)	-	(432,192)	-
Operation of non-instructional services							
Student activities	235,262	744	-	(234,518)	-	(234,518)	-
Community service	108,798	159,104	10,050	60,356	-	60,356	-
Depreciation	194,309	-	-	(194,309)	-	(194,309)	-
Total governmental activities	<u>15,421,846</u>	<u>159,848</u>	<u>1,165,927</u>	<u>(14,096,071)</u>	<u>-</u>	<u>(14,096,071)</u>	<u>-</u>
BUSINESS-TYPE ACTIVITIES							
Food services	<u>380,118</u>	<u>207,562</u>	<u>229,508</u>	<u>-</u>	<u>56,952</u>	<u>56,952</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT ACTIVITIES	<u>\$ 15,801,964</u>	<u>\$ 367,410</u>	<u>\$ 1,395,435</u>	<u>(14,096,071)</u>	<u>56,952</u>	<u>(14,039,119)</u>	<u>-</u>
COMPONENT UNIT							
Interest	\$ 872,663	-	-	-	-	-	(872,663)
Program Services	<u>1,275,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,275,037)</u>
TOTAL COMPONENT UNIT	<u>\$ 2,147,700</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,147,700)</u>
GENERAL REVENUES/(EXPENSES)							
Local educational agencies				13,760,404	-	13,760,404	-
State grants and reimbursement				968,406	14,565	982,971	-
Rental income				-	-	-	1,986,500
All other revenue				<u>209,333</u>	<u>-</u>	<u>209,333</u>	<u>55,885</u>
TOTAL GENERAL REVENUES/(EXPENSES)				<u>14,938,143</u>	<u>14,565</u>	<u>14,952,708</u>	<u>2,042,385</u>
AND TRANSFERS							
CHANGE IN NET POSITION				842,072	71,517	913,589	(105,315)
NET POSITION, BEGINNING OF YEAR				<u>17,034,209</u>	<u>102,643</u>	<u>17,136,852</u>	<u>3,649,097</u>
NET POSITION, END OF YEAR				<u>\$ 17,876,281</u>	<u>\$ 174,160</u>	<u>\$ 18,050,441</u>	<u>\$ 3,543,782</u>

See accompanying notes to the financial statements.

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 9,568,389
Cash - Restricted	7,703
State subsidies receivable	531,696
Federal subsidies receivable	198,216
Local subsidies receivable	99,232
Other receivables	15,021
Due from component unit	1,338,322
Prepaid expenses	7,487,531
Due from proprietary fund	<u>195,872</u>
TOTAL ASSETS	<u>\$ 19,441,982</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued expenses	\$ 423,368
Accrued salaries and benefits	1,319,229
Due to fiduciary funds	285,320
Refundable advances	<u>45,301</u>
TOTAL LIABILITIES	<u>2,073,218</u>
FUND BALANCE	
Nonspendable	9,029,428
Committed	6,412,789
Unassigned	<u>1,926,547</u>
TOTAL FUND BALANCE	<u>17,368,764</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 19,441,982</u>

See accompanying notes to the financial statements.

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 17,368,764

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	303,554	
Equipment	1,900,205	
Furniture and fixtures	489,919	
Less: accumulated depreciation	<u>(2,186,161)</u>	<u>507,517</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 17,876,281

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	<u>General Fund</u>
REVENUES	
Local sources	\$ 13,760,404
State sources	968,406
Federal sources	1,165,927
Other revenue	<u>369,181</u>
TOTAL REVENUES	<u>16,263,918</u>
EXPENDITURES	
Instruction	8,323,903
Support services	6,559,574
Non-instructional services	344,060
Capital outlay	<u>232,799</u>
TOTAL EXPENDITURES	<u>15,460,336</u>
EXCESS OF REVENUES OVER EXPENDITURES	803,582
FUND BALANCE, BEGINNING OF YEAR	<u>16,565,182</u>
FUND BALANCE, END OF YEAR	<u>\$ 17,368,764</u>

See accompanying notes to the financial statements.

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY 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, 2014**

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS \$ 803,582

The amount reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The effect of capitalizing the current year's capital outlays is to increase net assets.

232,799

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.

(194,309)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 842,072

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2014**

	Enterprise Fund
	<u>Food Service Fund</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 272,672
State subsidies receivable	2,389
Federal subsidies receivable	35,170
Prepaid expenses	<u>40,324</u>
TOTAL CURRENT ASSETS	350,555
Capital assets, net	<u>30,664</u>
TOTAL ASSETS	<u>\$ 381,219</u>
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 11,187
Due to general fund	<u>195,872</u>
TOTAL CURRENT LIABILITIES	<u>207,059</u>
NET POSITION	
Invested in capital assets, net of related debt	30,664
Unrestricted	<u>143,496</u>
TOTAL NET POSITION	<u>174,160</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 381,219</u>

See accompanying notes to the financial statements.

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION – PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2014**

	Enterprise Fund
	<u>Food Service Fund</u>
OPERATING REVENUES	
Food service	\$ 207,562
TOTAL OPERATING REVENUES	<u>207,562</u>
 OPERATING EXPENSES	
Depreciation	14,512
Purchased services	343,089
Equipment, supplies, and other operating expenses	<u>22,517</u>
TOTAL OPERATING EXPENSES	<u>380,118</u>
 OPERATING INCOME (LOSS)	<u>(172,556)</u>
 NONOPERATING REVENUES (EXPENSES)	
State sources	14,565
Federal sources	<u>229,508</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>244,073</u>
 CHANGE IN NET POSITION	71,517
 NET POSITION, BEGINNING OF YEAR	<u>102,643</u>
 NET POSITION, END OF YEAR	<u>\$ 174,160</u>

See accompanying notes to the financial statements.

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
STATEMENT OF CASH FLOWS – PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014**

	Enterprise Fund
	<u>Food Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from students	\$ 207,962
Payments to vendors	<u>(363,004)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(155,042)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances from governmental fund	174,976
Subsidies received from federal sources	202,411
Subsidies received from state sources	<u>12,754</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>390,141</u>
CASH USED BY CAPITAL FINANCING ACTIVITIES	
Purchases of capital assets	<u>(32,277)</u>
NET INCREASE IN CASH	<u>202,822</u>
CASH, BEGINNING OF YEAR	<u>69,850</u>
CASH, END OF YEAR	<u>\$ 272,672</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (172,556)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation expense	14,512
Change in assets and liabilities	
Other receivables	400
Accounts payable	<u>2,602</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (155,042)</u>

See accompanying notes to the financial statements.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
STATEMENT OF NET POSITION – FIDUCIARY FUND
JUNE 30, 2014

	<u>Agency Funds</u>		
	<u>Student</u>	<u>Association of</u>	<u>Total Agency</u>
	<u>Activities Fund</u>	<u>MaST Parents</u>	<u>Funds</u>
ASSETS			
Due from general fund	<u>\$ 127,813</u>	<u>\$ 157,507</u>	<u>\$ 285,320</u>
LIABILITIES			
Due to student groups	\$ 127,813	\$ -	\$ 127,813
Due to parent group	<u>-</u>	<u>157,507</u>	<u>157,507</u>
TOTAL LIABILITIES	<u>\$ 127,813</u>	<u>\$ 157,507</u>	<u>\$ 285,320</u>

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Mathematics, Science and Technology Community 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 without a renewal charter, as discussed in Note 8. The objectives and purposes of the Charter School are: (1) to foster quality public education and to advance the interests of public school students through the promotion and advocacy of community schools; (2) to stimulate and replicate the development of innovative programs in public education with an emphasis on mathematics, science and technology; (3) to provide opportunities for learning and assessments; (4) to provide parents and students with greater educational options in choosing a school; and (5) to hold teachers, parents, and school administrators accountable for the student educational process. The School is located in Northeast Philadelphia 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.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Component Unit

Isaac Newton Foundation (“INF”) is a legally separate, non-profit corporation formed on June 1, 2001, under the laws of the Commonwealth of Pennsylvania. It is tax-exempt component unit of the School. INF was organized to acquire and construct the School’s facilities. Although the School does not control the timing or amounts of receipts from INF, the majority of resources, and income thereon, which INF holds, are restricted to the activities of the School. INF’s mission is to support the health, welfare and educational interests of the School. The purpose of INF is to operate exclusively for the support and benefit of the School and its affiliated or controlled organizations and utilize resources for the purpose of replicating the School’s educational model. INF’s primary activity is providing educational facilities to the School. Because these restricted resources held by INF can only be used by or for the benefit of the School, INF is considered a component unit of the School and is discretely presented in the School’s financial statements. Complete financial statements of Isaac Newton Foundation can be obtained at 601 Route 73 North, Suite 302, Marlton, NJ 08053-3408.

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 INF is a non-profit organization that reports under FASB standards, including the FASB ASC Not-for-Profit Topic, as discussed in Note 13. 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 the INF’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.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

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.

Fiduciary fund financial statements are used to account for resources held for the benefit of parties outside the government. They are not included in the government-wide financial statements because their resources are not available to support Mathematics, Science and Technology Community Charter School's programs.

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 365 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.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

Fund Financial Statements (Continued):

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.

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.

The School reports the following fiduciary funds:

Student Activities and Association of MaST Parents Funds – Trust and Agency Funds are used to account for assets held by the School in a trustee capacity or as an agent for individuals. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School does not maintain any Trust Funds but maintains Agency Funds for the activities of student clubs, classes and organizations and for parent organization groups.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Budgets and Budgetary Accounting

Budgets are adopted substantially on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. An annual budget is adopted for the General Fund. The School is required to present the adopted and final budgeted revenues and expenditures for the general fund that were filed and accepted by the Labor, Education and Community Services Comptroller's office. Included in the budgetary filing are provisions for the revenues and expenditures of the Proprietary Food Service Fund. These provisions are included in revenues as local, state and federal sources and expenditures as non-instructional services. Accordingly the actual results are also included in the comparison. The General Fund budget appears on page 48.

The 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 generally accepted accounting principles 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, federal grants, and transportation. Receivables are stated at the amount management expects to collect from outstanding balances. As of June 30, 2014, based on historical experience, no allowance for doubtful accounts has been recorded.

Prepaid Expenses

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

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Capital Assets

Capital assets, which include leasehold improvements, vehicles, 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 INF, 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 forty (40) 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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The School has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The School has no items that meet the criterion.

Net Position / Fund Balances

The government-wide and proprietary fund financial statements require the classification of net position into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These calculations 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.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

Net Position / Fund Balances (Continued)

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

The governmental fund financial statements segregate portions of fund balance that are either not available or have been restricted for specific purposes. Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

- 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.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 2011.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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

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, 2014, 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.

Adoption of New Accounting Standards

During the year ended June 30, 2014, the School adopted GASB Statement No. 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving 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*. This statement does not have a material impact on the School's financial statements.

Pending changes in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The provisions of Statements Nos. 68 and 71 are effective for the School's June 30, 2015, financial statements. The School has not yet determined the effect of implementation.

Date of Management's Review

The School has evaluated material subsequent events through the date that these financial statements were available to be issued on December 22, 2014.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014 the combined total of all deposits were insured up to at least \$250,000. The School maintains its cash balances which, at times during the year, may exceed the threshold for insurance by the FDIC. Under Pennsylvania Act 72 (72 Pa.Stat.Ann Sec 3836-1 et seq.) financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School has elected for its accounts to be covered under this act.

As of June 30, 2014, the custodial risk is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Uninsured and uncollateralized	\$ -	\$ 476,337
Collateralized	-	-
Uninsured and collateral held by the pledging bank's trust department not in the School's name	<u>9,704,764</u>	<u>-</u>
Total	<u>\$ 9,704,764</u>	<u>\$ 476,337</u>

Reconciliation to the financial statements:

	<u>Primary Government</u>	<u>Component Unit</u>
Cash exposed to custodial risk	\$ 9,704,764	\$ 476,337
Plus: Insured amount	250,000	250,000
Less: Outstanding checks	<u>(106,000)</u>	<u>(6,717)</u>
	<u>\$ 9,848,764</u>	<u>\$ 719,620</u>

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 LOCAL EDUCATION AGENCY ASSISTANCE (REVENUE)

The School receives funding from the School District of Philadelphia and other local school districts 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, 2014, the rate for the School District of Philadelphia was \$8,597 per year per student plus additional funding for special education students at a rate of \$22,242 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 was \$13,760,404 for the year ended June 30, 2014.

NOTE 4 RECEIVABLES

Receivables at June 30, 2014, consisted of subsidies from federal, state, local and private authorities and organizations. All receivables are considered collectible due to the stable condition of the federal and state programs.

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

<u>Receivables</u>	<u>Amount</u>
Federal	\$ 233,386
State	534,085
Local	99,232
Other	<u>15,021</u>
	<u>\$ 881,724</u>

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2014 was as follows:

Governmental Activities

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Leasehold improvements	\$ 154,314	\$ 149,240	\$ -	\$ 303,554
Equipment	1,852,697	47,508	-	1,900,205
Furniture and fixtures	<u>453,868</u>	<u>36,051</u>	-	<u>489,919</u>
	2,460,879	232,799	-	2,693,678
Less: Accumulated depreciation	<u>(1,991,852)</u>	<u>(194,309)</u>	-	<u>(2,186,161)</u>
Capital assets, net	<u>\$ 469,027</u>	<u>\$ 38,490</u>	<u>\$ -</u>	<u>\$ 507,517</u>

Depreciation expense for governmental activities for the year ended June 30, 2014 was \$194,309.

Business –Type Activities

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Equipment	\$ 110,568	\$ 32,277	\$ -	\$ 142,845
Less: Accumulated depreciation	<u>(97,669)</u>	<u>(14,512)</u>	-	<u>(112,181)</u>
Capital assets, net	<u>\$ 12,899</u>	<u>\$ 17,765</u>	<u>\$ -</u>	<u>\$ 30,664</u>

Depreciation expense for business-type activities for the year ended June 30, 2014 was \$14,512.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 6 RETIREMENT PLAN

The School contributes to the Public School Employees' Retirement System (the System), a governmental cost-sharing multiple-employer defined benefit pension plan administered by the System, which provides retirement and disability benefits, legislatively mandated ad hoc cost-of-living adjustments, and health care insurance premium assistance to qualifying annuitants.

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. The System issues a comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Diane J. Wert, Office of Financial Management, Public School Employees' Retirement System, P.O. Box 125, Harrisburg, Pennsylvania 17108-0125. The publication is also available on the System's website at www.psers.state.pa.us/publications/cafr/index.htm.

The rate of contribution for employees ranges from 5.25% - 10.30% depending upon classification and elections of employees. For the year ended June 30, 2014, the School's contribution is 16.93% of covered payroll. In accordance with Act 29 of 1994, the Commonwealth of Pennsylvania will pay school entities for contributions made to the System based on the formula in Act 29 of 1994, but not less than one-half of the school entities contributions. The School's contributions to the Plan for the years ended June 30, 2014, June 30, 2013 and June 30, 2012 totaled approximately \$1,148,000, \$796,000, and \$545,000, respectively, which equals 100% of the contractually required contribution as set by State statutes.

Payroll expense for employees covered by the System for the year ended June 30, 2014 was approximately \$6,900,000.

NOTE 7 COMMITMENTS

Contracts

The School has entered into a consulting agreement with a management company for various business services through June 30, 2019. The agreement requires payments of \$175 per student per annum with annual escalations until the agreements completion, ending with a rate of \$191 per student per annum for the year ending June 30, 2019.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 COMMITMENTS (CONTINUED)

Contracts (Continued)

Approximate minimum payments based on 1,200 students are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 210,000
2016	214,800
2017	219,600
2018	224,400
2019	<u>229,200</u>
	<u>\$ 1,098,000</u>

The School has also entered into a contract with a cleaning company through June 30, 2017. Minimum payments under this agreement are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 242,400
2016	244,800
2017	<u>248,400</u>
	<u>\$ 735,600</u>

Operating Lease

The School leases its facilities from INF under a long-term operating lease ending January 1, 2040. The School has advanced funds to INF, which has been recorded as prepaid rent. It is anticipated that these funds will be charged to operations at the rate of \$45,000 per month from April 2013 until all prepaid rent has been charged to operations. Rent under the lease for the year ended June 30, 2014, was \$1,986,500, which includes \$540,000 of amortized prepaid rent.

The following is a schedule of prepaid rent at June 30, 2014:

	<u>Amount</u>
Prepaid rent	\$ 7,209,086
Less: current portion	<u>540,000</u>
	<u>\$ 6,669,086</u>

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 COMMITMENTS (CONTINUED)

Operating Lease (Continued)

Future minimum rentals under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 1,986,500
2016	1,986,500
2017	1,986,500
2018	1,986,500
2019	1,986,500
2020-2024	9,932,500
2025-2029	9,932,500
2030-2034	9,932,500
2035-2039	9,932,500
2040	993,251
	<u>\$ 50,655,751</u>

The School and INF 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, 2014, was \$1,338,322.

NOTE 8 CONTINGENCIES

Grants

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

Litigation

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

Risk Management

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

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 CONTINGENCIES (CONTINUED)

Charter Renewal

The School is currently operating without a signed renewal charter. Its previous renewal charter expired on June 30, 2013. The School District of Philadelphia proffered a renewal charter, which the School has not signed. Currently, the School and School District of Philadelphia are in negotiations over the language contained within the renewal charter.

NOTE 9 FUND BALANCES AND BOARD DESIGNATIONS

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 Unassigned Fund Balance of \$1,926,547 as of June 30, 2014. Prepaid expenses, restricted cash, the balance due from the proprietary fund and the balance due from INF, as discussed in Note 11, are considered Nonspendable Funds in the amount of \$9,029,428.

The General Fund has Committed Funds consisting of the Board Designations of \$6,412,789.

A board designation of net position is used to indicate that a portion of the total net position is not appropriable for expenditures because some underlying assets are not available financial resources. As of June 30, 2014, the Board of Trustees has established net asset designations in the amount of \$6,412,789 which are included in unrestricted net position in the statement of net position.

The following amounts have been designated by the Board of Trustees as follows:

<u>Designations</u>	<u>Amount</u>
Capital improvements fund	\$ 500,000
Debt service	2,185,150
Equipment and capital assets	1,000,000
Pension fund	1,727,639
Technology	1,000,000
	<u>\$ 6,412,789</u>

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014**

NOTE 10 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014 is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 195,872	\$ -
Enterprise Fund	<u>-</u>	<u>195,872</u>
	<u>195,872</u>	<u>195,872</u>

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

NOTE 11 RELATED PARTY TRANSACTIONS

The School leases under an operating agreement, property which is located at 1800 East Byberry Road in Philadelphia, Pennsylvania from INF as discussed in Notes 7 and 13.

The School and INF 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, 2014, was \$1,338,322.

NOTE 12 CONCENTRATIONS

Approximately 77% of the School's revenue results from funds received from the School District of Philadelphia based on the student enrollment.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT

Summary of Significant Accounting Policies

Nature of Organization and Business Activities

INF is a non-profit corporation formed on June 1, 2001, under the laws of the Commonwealth of Pennsylvania, to support the health, welfare and educational interests of the School. INF is considered to be a component unit of the School.

Basis of Accounting

The financial statements of INF 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, INF 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, 2014, INF's net assets was unrestricted and temporarily restricted.

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, INF considers all highly liquid instruments with a maturity of three months or less to be considered cash equivalents.

Receivables

Management considers receivables to be fully collectible; accordingly no allowance for doubtful accounts is required. If accounts become uncollectible they will be charged to operations when that determination is made.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment 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	40 years
Improvements	15 years
Furniture and fixtures	7 years
Computer and technology equipment	5 years

Bond Settlement Costs

Settlement costs incurred by INF in association with the acquisition of revenue bonds are amortized using the straight line method over the terms of the bonds payable. Amortization of bond settlement costs for the year ended June 30, 2014, was \$12,337. Future amortizations of bond settlement costs amount to \$12,336 annually for 2015 through 2034 and \$11,744 in 2035.

Original Issue Discount

The original issue discount relating to the revenue bond issuance is amortized as interest over the term of the bonds. Amortization of original issue discount included in interest expense for the year ended June 30, 2014, was \$16,642. Future amortizations of original issue discount are as follows, and are included in interest expense:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 15,792
2016	16,071
2017	16,332
2018	16,656
2019	16,777
Thereafter	189,042
	<u>\$ 270,670</u>

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Net Assets

Unrestricted Net Assets – INF 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 – INF 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. Rental income, investment earnings and contributions restricted for debt service and capital improvements are released to unrestricted revenue at the time the funds are expended for the specified purpose.

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.

Contributions

Contributions, including unconditional promises to give, are recorded when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Fundraising

Costs of special events are recorded as an expense in fundraising expenses and the related revenue is included as contributions or other income in the Statements of Activities.

Advertising Costs

All costs associated with advertising and promotions are recorded as expenditures in the year incurred.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Summary of Significant Accounting Policies (Continued)

Tax Status and Uncertainty in Income Taxes

INF is a Pennsylvania not-for-profit corporation. The Internal Revenue Service has issued a determination letter that INF is a nonprofit organization, as defined under Section 501(c)(3) of the Internal Revenue Code. As such, INF 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. INF would be taxed on unrelated business income which does not fall under the 501(c)(3) exemption. Management believes that INF 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, 2014 are 2011 through 2013, 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. INF 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 INF'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, 2014, INF'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.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Escrow Deposits

INF 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 INF holds those funds for specific purposes as discussed below. All escrow deposits are considered temporarily restricted.

Cost of Issuance Fund

The Cost of Issuance Fund Escrow was funded with proceeds of bond issuance, along with a contribution from the School. The funds were then disbursed as needed to pay the costs of issuance of the bonds, repay the then existing mortgage and bonds payable, and to fund the Project Fund and the Debt Service Reserve Fund. This fund was setup only to facilitate distribution of the proceeds of bond issuance and has no other intended uses and has no balance as of June 30, 2014.

Project Fund

The Project Fund Escrow was funded from the Cost of Issuance Fund, and was used to pay costs directly associated with the construction and renovation project. This also includes fees and expenses of the Trustee and other applicable or necessary costs prior to completion of the project. No additional funds are required to be deposited in this escrow.

Revenue Fund

The Revenue Fund Escrow was set up to directly receive the lease payments each month from the School. The receipts are first applied to the Debt Service Fund, and then to the Repair and Replacement Fund for the requirements listed under those fund descriptions.

Debt Service Reserve Fund

The Debt Service Reserve Fund Escrow was funded with \$1,171,500 from the Cost of Issuance Fund, and is used only in the event that the monies in the Debt Service Fund are insufficient to make the necessary principal and interest bond payments. All interest income earned in this escrow is transferred to the Debt Service Fund and credited to interest owed by the borrower.

Repair and Replacement Fund

The Repair and Replacement Fund Escrow is funded monthly, or as required, by the Revenue Fund in an amount which fluctuated between \$0 and \$20,750 during the year. During the year the fund became fully funded and accordingly additional funding ceased. The funds in this escrow are to be used only in association with costs of improvements to the School facility, repairs or replacement parts of the School facility, and to purchase equipment needed for the School.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Escrow Deposits (Continued)

Rebate Fund

The Rebate Fund Escrow has been established to reimburse the US Treasury to the extent any excessive investment income is generated from the proceeds of tax free bonds. There was no activity in this account during the year ended June 30, 2014.

Debt Service Fund

The Debt Service Fund Escrow is used solely for the payment of the principal and premium, if any, and interest on the bonds as due. It was set up for payment of due interest and principal payments on the bonds. The monthly transfer from the Revenue Fund deposited in this fund for the year ended June 30, 2014 fluctuated between \$77,248 and \$103,749. Also, retained in this fund is the interest or other income received on investment of moneys in the fund. Any additional funds needed will first be drawn from the Debt Service Reserve Fund and paid in the order of maturity, interest due first including interest on overdue principal, and then principal. Amounts remaining in the fund after all requirements are met will be paid to the borrower upon expiration of the agreement.

A summary of the principal escrow accounts held by the INF, and classified as temporarily restricted net position, as of June 30, 2014 is as follows:

	<u>Amount</u>
Cost of Issuance Fund	\$ -
Project Fund	1
Revenue Fund	-
Debt Service Reserve Fund	1,188,243
Repair and Replacement Fund	750,200
Rebate Fund	-
Debt Service Fund	652,859
	<u>\$ 2,591,303</u>

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Escrow Deposits (Continued)

Debt Service Fund (Continued)

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, 2014, these investments consisted of the following:

	<u>Amount</u>
Mutual Funds	\$ 1,403,060
Cash Equivalents:	
Money Market Funds	<u> 1,188,243</u>
	<u>\$ 2,591,303</u>

Investment return on these investments consisted of interest in the amount of \$40,406, for the year ended June 30, 2014.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Property and Equipment

As of June 30, 2014, property and equipment consisted of the following:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Building and improvements	\$ 25,231,990	\$ 987,046	\$ -	\$ 26,219,036
Furniture and fixtures	699,084	-	-	699,084
Computer and technology equipment	1,125,614	71,883	-	1,197,497
Construction in progress	38,426	-	(38,426)	-
	<u>27,095,114</u>	<u>1,058,929</u>	<u>(38,426)</u>	<u>28,115,617</u>
Less: Accumulated depreciation	(5,144,493)	(1,072,866)	-	(6,217,359)
	<u>\$ 21,950,621</u>	<u>\$ (13,937)</u>	<u>\$ (38,426)</u>	<u>\$ 21,898,258</u>

Depreciation expense for the year ended June 30, 2014, was \$1,072,866. Construction in progress represents ongoing additions to the building which were not placed in service as of June 30, 2014, and were not being depreciated. Included in disposals and additions are the amounts in construction in progress as of June 30, 2013, which were placed in service during the year ended June 30, 2014. All property and equipment are pledged as collateral for the bonds payable.

Deferred Revenue

INF entered into a lease agreement with the School, as discussed in Note 7. During construction periods, which have occurred at various times since 2001, the School has advanced INF monies to help fund the construction and expansion projects. Most recently, during the year ended June 30, 2014, the School advanced INF \$1,058,929 in advanced rent for the Mezzanine Project. The construction was substantially completed as of January 2014. The advanced rent is amortized at a rate of \$45,000 per month until all advanced rent has been amortized. Amortization of deferred revenues for the year ended June 30, 2014, was \$540,000, and is included in rental income. The balance in deferred revenue was \$7,209,086 at June 30, 2014.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Deferred Revenue (Continued)

Future amortization of deferred revenue is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 540,000
2016	540,000
2017	540,000
2018	540,000
2019	540,000
Thereafter	4,509,086
	<u>\$ 7,209,086</u>

Bonds Payable

In February 2010, INF issued Series 2010 tax-exempt revenue bonds in the amount of \$15,880,000 to (a) finance the construction of a 15,000 square foot, 3-story addition to the existing educational facility located at 1800 East Byberry Road, Philadelphia, PA (the "Property"), to be used as a library and technology resource center; (b) renovate 7,500 square feet at the Property; (c) refinance its then existing mortgage and bonds payable; (d) payoff the termination fees for interest rate swap agreements related to said mortgage and bonds payable; (e) fund the Debt Service Reserve Fund; and (f) to pay the cost of issuance of the bonds.

Interest is paid to bondholders on February 1 and August 1 of each year, commencing August 1, 2010. The interest rates on the bonds are fixed at 5% and 6%. The bonds mature in the amounts of \$3,830,000 and \$12,050,000, on August 1, 2020 and 2035, respectively, with an option to redeem a portion of the bonds each August 1. The bonds are collateralized by the Property, and assignment of all leases and income on the Property. As of June 30, 2014, the amount outstanding was \$14,685,000. During the year ended June 30, 2014 \$305,000 of the bonds were redeemed.

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

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Bonds Payable (Continued)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 320,000	\$ 846,750	\$ 1,166,750
2016	340,000	830,250	1,170,250
2017	355,000	812,875	1,167,875
2018	375,000	794,625	1,169,625
2019	395,000	775,375	1,170,375
2020 - 2024	2,320,000	3,529,300	5,849,300
2025 - 2029	3,115,000	2,729,250	5,844,250
2030 - 2034	4,210,000	1,638,000	5,848,000
2035 - 2036	3,255,000	232,650	3,487,650
	<u>\$ 14,685,000</u>	<u>\$ 12,189,075</u>	<u>\$ 26,874,075</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2014:

	<u>Amount</u>
Escrow Deposits	<u>\$ 2,591,303</u>

Support and Revenue

INF receives almost all of its revenue from rental activities, of which a portion temporarily restricted. The balance is available for unrestricted use. Fundraising activities and general support contributions are generally available for unrestricted use unless specifically restricted by the donor. INF has not received any contributions from fundraising or general support with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.

Fundraising Expenses

INF expended \$5,720 in expenditures that were associated with fundraising activities.

MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 13 COMPONENT UNIT (CONTINUED)

Related Party Transactions

INF's goal is to financially support the School through fundraising and charitable gifts.

INF leases 100% of its rental facility to the School under a long-term operating lease ending January 1, 2040. Rent under the lease for the year ended June 30, 2014, was \$1,986,500, which includes \$540,000 of amortized deferred revenue. The balance of the deferred revenue was \$7,209,086 at June 30, 2014. The lease agreement also includes a provision that minimum rentals may be increased as needed based on debt service requirements of INF. Future minimum rentals under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 1,986,500
2016	1,986,500
2017	1,986,500
2018	1,986,500
2019	1,986,500
Thereafter	<u>40,723,251</u>
	<u>\$ 50,655,751</u>

INF 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, 2014, was \$1,338,322.

Concentrations

Rental Income

100% of the total rental revenue of INF as of June 30, 2014, is generated from the School through direct leased property.

Commitments

Management Company

In July 2011, INF extended its agreement with a management company for various business services. Minimum payments under the agreement are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ <u>14,395</u>

REQUIRED SUPPLEMENTARY INFORMATION

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
SCHEDULE OF GOVERNMENTAL FUND BUDGETARY COMPARISON
YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 13,683,588	\$ 13,749,381	\$ 13,967,966	\$ 218,585
State sources	1,086,969	1,086,969	982,971	(103,998)
Federal sources	1,301,959	1,325,885	1,395,435	69,550
Other revenue	<u>466,567</u>	<u>594,508</u>	<u>369,181</u>	<u>(225,327)</u>
TOTAL REVENUES	<u>16,539,083</u>	<u>16,756,743</u>	<u>16,715,553</u>	<u>(41,190)</u>
EXPENDITURES				
Instruction	9,050,119	8,716,119	8,525,443	190,676
Support services	6,848,369	6,738,258	6,590,833	147,425
Non-instructional services	<u>772,672</u>	<u>807,164</u>	<u>724,178</u>	<u>82,986</u>
TOTAL EXPENDITURES	<u>16,671,160</u>	<u>16,261,541</u>	<u>15,840,454</u>	<u>421,087</u>
EXCESS OF REVENUES OVER EXPENDITURES				
	<u>\$ (132,077)</u>	<u>\$ 495,202</u>	875,099	<u>\$ 379,897</u>
FUND BALANCE, BEGINNING OF YEAR			<u>16,667,825</u>	
FUND BALANCE, END OF YEAR			<u>\$ 17,542,924</u>	

See accompanying notes to the financial statements.

SINGLE AUDIT

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

Grantor Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Grant Period		Expenditures
			Beginning Date	Ending Date	
U.S. Department of Education, Passed-through the PA Department of Education					
Title I Grants to Local Educational Agencies	84.010	013-130880	7/1/2012	9/30/2013	\$ 112,979
Title I Grants to Local Educational Agencies	84.010	013-140880	11/6/2013	9/30/2014	<u>706,933</u>
Total Title I Grants to Local Educational Agencies					<u>819,912</u>
Improving Teacher Quality State Grants	84.367	020-130880	7/1/2012	9/30/2013	16,376
Improving Teacher Quality State Grants	84.367	020-140880	11/6/2013	9/30/2014	<u>51,168</u>
Total Improving Teacher Quality State Grants					<u>67,544</u>
U.S. Department of Education, Passed-through the School District of Philadelphia					
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	7/1/2013	9/30/2014	<u>213,625</u>
Total U.S. Department of Education					<u>1,101,081</u>
U.S. Department of Health and Human Services, Passed-through the PA Dept. of Education					
Medical Assistance Program	93.778	044-007646	7/1/2013	9/30/2014	<u>7,359</u>
Total U.S. Department of Health and Human Services					<u>7,359</u>
U.S. Department of Agriculture, Passed-through the PA Department of Education					
National School Lunch Program - Food Commodities	10.555	362	7/1/2013	9/30/2014	15,356
National School Lunch Program	10.555	362	7/1/2013	9/30/2014	175,811
School Breakfast Program	10.553	365	7/1/2013	9/30/2014	<u>38,341</u>
Total Child Nutrition Cluster					<u>229,508</u>
Total U.S. Department of Agriculture					<u>229,508</u>
Total Expenditures of Federal Awards					<u>\$ 1,337,948</u>

**MATHEMATICS, SCIENCE AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014**

NOTE 1 GENERAL INFORMATION

The accompanying Schedule of Expenditures of Federal Awards presents the activities of the federal financial assistance programs of Mathematics, Science and Technology Community 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and follows the OMB Circular A-122 *Cost Principles for 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 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.

**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
Mathematics, Science and Technology Community Charter School
Philadelphia, Pennsylvania

We have audited 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 Mathematics, Science and Technology Community Charter School as of and for the year ended June 30, 2014, 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, 2014. 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 Isaac Newton Foundation, Inc. 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 or reportable noncompliance associated with Isaac Newton Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mathematics, Science and Technology Community 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 Mathematics, Science and Technology Community Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Mathematics, Science and Technology Community Charter School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mathematics, Science and Technology Community 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Certified Public Accountants

Newtown, Pennsylvania
December 22, 2014

**Independent Auditors' Report on Compliance
for Each Major Program and on Internal Control Over
Compliance Required by OMB Circular A-133**

To the Board of Trustees
Mathematics, Science and Technology Community Charter School
Philadelphia, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Mathematics, Science and Technology Community Charter School's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mathematics, Science and Technology Community Charter School's major federal programs for the year ended June 30, 2014. Mathematics, Science and Technology Community 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 Responsibilities

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 Mathematics, Science and Technology Community 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 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 Mathematics, Science and Technology Community 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 Mathematics, Science and Technology Community Charter School's compliance.

Opinion on Each Major Federal Program

In our opinion, Mathematics, Science and Technology Community 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, 2014.

Report on Internal Control Over Compliance

Management of Mathematics, Science and Technology Community 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 Mathematics, Science and Technology Community 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 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 Mathematics, Science and Technology Community 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.

Cantor Novak Berman & PLo, PC

Certified Public Accountants

Newtown, Pennsylvania
December 22, 2014

**MATHEMATICS, SCIENCE, AND TECHNOLOGY COMMUNITY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
_____yes none reported

Noncompliance material to financial statements noted? _____yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____yes no

Significant deficiencies identified that are not considered to be material weakness(es)?
_____yes none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____yes no

Major programs:

CFDA Number(s)

84.010

Name of Federal Program(s)

Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between types A and B programs: \$300,000

Auditee qualified as low-risk auditee? yes _____no

B. FINDINGS – FINANCIAL STATEMENT AUDIT

There were no financial statement findings.

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

There were no findings and questioned costs for federal awards, which would include audit findings as defined in OMB Circular A-133.