

GENERAL DAVID B. BIRNEY CHARTER SCHOOL

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2015



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
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YEAR ENDED JUNE 30, 2015

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Trustees
General David B. Birney Charter School
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the General David B. Birney Charter School as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the General David B. Birney 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.

Auditors' Responsibility

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

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

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

To the Board of Trustees
General David B. Birney Charter School
Philadelphia, Pennsylvania

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the General David B. Birney Charter School as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note H to the financial statements, for the year ended June 30, 2015, the General David B. Birney Charter School adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 8, budgetary comparison information on pages 27 and 28, schedule of the school's proportionate share of the net pension liability and the schedule of school contributions on pages 29 and 30 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 evidence sufficient to express an opinion or provide any assurance.



Oaks, Pennsylvania
December 17, 2015

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

As management of the General David B. Birney Charter School, we provide readers of the financial statements of the General David B. Birney Charter School this narrative overview and analysis summarizing the financial activities of the General David B. Birney Charter School for the fiscal year ended June 30, 2015.

FINANCIAL HIGHLIGHTS

- The General David B. Birney Charter School's General Fund had revenues of \$7,277,654. The revenues of \$7,277,654 consisted of general revenues totaling \$6,663,867. Included in the general revenues was unrestricted local aid of \$6,645,416.
- The General David B. Birney Charter School's cash balance at June 30, 2015, was \$531,462.
- The School had total government-wide expenditures of \$7,619,973 in the fiscal year ended June 30, 2015. Included in the total expenditures for the fiscal year ended June 30, 2015, were \$4,804,626 of instructional expenses, \$2,555,607 of supporting services, and \$259,740 in unallocated depreciation.
- The liabilities of the General David B. Birney Charter School exceeded assets by \$14,792,168, representing the School's net assets invested in capital assets of \$536,124 and a net deficit in unrestricted net assets of \$15,328,292. This is primarily due to the adoption of GASB No. 68 and the reporting of the School's proportionate share of their net pension liabilities.
- The School had capital asset additions totaling \$88,169 for the year ended June 30, 2015.
- The School was required to adopt GASB 68 relative to its participation in the Commonwealth of Pennsylvania's Public Employees' Retirement System (PSERS). Charter Schools are required to offer this retirement plan to their employees as a condition of their charter. The Commonwealth controls all aspects of the plan including assets and administration. The School makes contributions as defined by the Commonwealth. Historically, the School has recorded its contributions to the plan as expenses in the year these contributions were required by the Commonwealth. With the adoption of GASB 68, the School is required to record a liability for its proportionate share of the PSERS plan and expenses related to the performance of plan administration against its goals. The School recorded an adjustment to net assets of \$15,883,000 for the net liability as of June 30, 2014 as well as required contributions of \$763,000. All public schools in Pennsylvania who participate in PSERS are being required to record a proportionate share of the \$39,580,717,000 liability in their financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

The purpose of the management's discussion and analysis is to introduce our readers to the General David B. Birney Charter School's basic financial statements. The General David B. Birney Charter School's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the basic financial statements.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

Government-Wide Financial Statements

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

The statement of net position presents information on all of the General David B. Birney Charter School's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Tracking increases and decreases in net assets serves as a useful indicator of improvement or deterioration in the financial position of the General David B. Birney Charter School.

The statement of activities presents changes in the School's net position 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 expenditures are reported in this statement for some items that will result in cash flows in future periods (e.g., uncollected grant expenses and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of the General David B. Birney Charter School supported primarily by Per Pupil Operating Revenue or other revenues passed through from the School District. The governmental activities of the General David B. Birney Charter School include instructional and supporting services.

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The General David B. Birney Charter School, like most charter schools or other governmental units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The General David B. Birney Charter School maintains one Governmental Fund.

Governmental Fund - The Governmental Fund (General Fund) is used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, Governmental Fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the General David B. Birney Charter School's near-term financing requirements.

In particular, fund balance may serve as a useful measure of the School's net resources available for program purposes at the end of the fiscal year. For the fiscal year ended June 30, 2015, the School's Governmental Fund reported a negative fund balance of \$83,292.

Because the focus of the Governmental Fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the Governmental Fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the General David B. Birney Charter School's near-term financing decisions.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

Both the Governmental Fund balance sheet and the Governmental Fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the Governmental Fund and governmental activities.

Information is presented in the Governmental Fund balance sheet and in the Governmental Fund statement of revenues, expenditures and changes in fund balance for the general operating fund.

The General David B. Birney Charter School adopts an annual appropriated budget for its General Fund to demonstrate compliance with the budget.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator in tracking changes in the School's financial position. In this case, the General David B. Birney Charter School's liabilities exceeded assets by \$14,792,168 as of June 30, 2015, and \$1,433,151 as of June 30, 2014. Net position decreased significantly from the prior year due to the adoption of GASB 68 and the recording of the School's net pension liability.

	<u>2015</u>	<u>2014</u>
ASSETS		
Current and other assets	\$ 661,131	\$ 1,393,353
Capital assets	536,124	707,694
TOTAL ASSETS	<u>1,197,255</u>	<u>2,101,047</u>
 DEFERRED OUTFLOWS OF RESOURCES	 763,000	 -
 LIABILITIES		
Current liabilities	744,423	667,896
Net pension liability	11,518,000	-
TOTAL LIABILITIES	<u>12,262,423</u>	<u>667,896</u>
 DEFERRED INFLOWS OF RESOURCES	 4,490,000	 -
 NET POSITION		
Invested in capital assets	536,124	707,694
Unrestricted	<u>(15,328,292)</u>	<u>725,457</u>
TOTAL NET POSITION	<u>\$ (14,792,168)</u>	<u>\$ 1,433,151</u>

The General David B. Birney Charter School's net position reflects its investment in capital assets (e.g., buildings and equipment, less any related debt used to acquire those assets that is still outstanding) of \$536,124 and a deficit in unrestricted net assets of \$15,328,292.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

The change in net position for the fiscal year ended June 30, 2015 and 2014, was \$(342,319) and \$656,429, respectively, and is summarized as follows:

	<u>2015</u>	<u>2014</u>
REVENUES	\$ <u>7,277,654</u>	\$ <u>8,037,065</u>
EXPENDITURES		
Instruction	4,804,626	4,630,677
Support services	2,555,607	2,501,346
Interest expense	-	4,493
Depreciation	<u>259,740</u>	<u>244,120</u>
TOTAL EXPENDITURES	<u>7,619,973</u>	<u>7,380,636</u>
CHANGE IN NET POSITION	\$ <u><u>(342,319)</u></u>	\$ <u><u>656,429</u></u>

Comparison to Budget

Significant variances between the adopted budget and the actual results in the General Fund are as follows:

- Local aid was less than budgeted as Special Education enrollment was less than budgeted.
- Federal aid was less than budgeted primarily due to a decrease in Title I funding received.
- State aid received by the School for the current fiscal year was less than budgeted due to a decrease in funding from the state for retirement contributions.
- Instructional services were more than budgeted primarily due an increase in professional services for Special Education and an increase in retirement costs.
- Capital outlays for new equipment were higher than budgeted.

CAPITAL ASSETS AND DEBT

Capital Assets

As of June 30, 2015, the School had invested \$536,124, net of accumulated depreciation and amortization, in a broad range of capital assets, including building improvements, furniture and office equipment and technology. Additional information on the School's capital assets is contained in Note D to the financial statements. Major capital asset acquisitions for the year include new school equipment.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic conditions in the Philadelphia region continue to make it important for the School to closely monitor expenses to allow for a balanced budget. For the fiscal year ending June 30, 2015, the School has budgeted a balanced budget.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the funds it receives and disburses. If you have any questions about this report or to request additional financial information, please contact the Business Manager or CEO at 900 West Lindley Avenue, Philadelphia, PA 19141-3920.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL

STATEMENT OF NET POSITION

JUNE 30, 2015

	Governmental Activities
ASSETS	
Cash	\$ 531,462
Accounts receivable	99,478
Prepaid expenses	30,191
Capital assets	
Charter costs	375,000
Furniture and equipment	760,022
Building improvements	257,967
Accumulated depreciation	(856,865)
TOTAL ASSETS	<u>1,197,255</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources, pension activity	<u>763,000</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,960,255</u>
LIABILITIES	
Accounts payable	\$ 156,734
Accrued payroll and related expenses	587,689
Net pension liability	11,518,000
TOTAL LIABILITIES	<u>12,262,423</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources, pension activity	<u>4,490,000</u>
NET POSITION	
Invested in capital assets	536,124
Unrestricted	(15,328,292)
TOTAL NET POSITION	<u>(14,792,168)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,960,255</u>

See accompanying notes to the basic financial statements.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	Governmental Activities
GOVERNMENTAL ACTIVITIES				
Instructional services	\$ 4,804,626	\$ -	\$ 613,787	\$ (4,190,839)
Supporting services	2,555,607	-	-	(2,555,607)
Interest on long-term liabilities	-	-	-	-
Depreciation, unallocated	<u>259,740</u>	-	-	<u>(259,740)</u>
TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>7,619,973</u>	\$ -	\$ <u>613,787</u>	(7,006,186)
GENERAL REVENUES				
State and local aid not restricted to specific purposes				6,645,416
Miscellaneous income				18,451
TOTAL GENERAL REVENUES				<u>6,663,867</u>
				(342,319)
CHANGE IN NET POSITION				
				<u>(14,449,849)</u>
NET POSITION AT BEGINNING OF YEAR				
				<u>NET POSITION AT END OF YEAR</u>
				<u>\$ (14,792,168)</u>

See accompanying notes to the basic financial statements.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2015

	<u>General Fund</u>
ASSETS	
Cash	\$ 531,462
Accounts receivable	99,478
Prepaid expenses	<u>30,191</u>
TOTAL ASSETS	\$ <u>661,131</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable and accrued expenses	\$ 156,734
Accrued payroll and related expenses	<u>587,689</u>
TOTAL LIABILITIES	<u>744,423</u>
COMMITMENTS AND CONTINGENCIES (Note F)	
FUND BALANCE	
Nonspendable, prepaid expenses	30,191
Unassigned	<u>(113,483)</u>
TOTAL FUND BALANCE	<u>(83,292)</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>661,131</u>

See accompanying notes to the basic financial statements.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

TOTAL GOVERNMENTAL FUND BALANCE	\$ (83,292)
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. These assets consist of:</p>	
Charter costs	375,000
Furniture and equipment	760,022
Building improvements	257,967
Accumulated depreciation	(856,865)
<p>Deferred inflows and outflows of resources related to pension activities are not financial resources and therefore not reported in the governmental funds.</p>	
	(3,727,000)
<p>Long-term liabilities, including the net pension liability, is not due and payable in the current period and therefore is not reported as a liability in the funds.</p>	
	<u>(11,518,000)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (14,792,168)</u>

See accompanying notes to the basic financial statements.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>
REVENUES	
Local aid	\$ 6,645,416
Federal aid	325,425
State aid	288,362
Miscellaneous income	<u>18,451</u>
TOTAL REVENUES	<u>7,277,654</u>
EXPENDITURES	
Current	
Instructional services	5,271,233
Supporting services	2,727,000
Capital outlays	<u>88,169</u>
TOTAL EXPENDITURES	<u>8,086,402</u>
NET CHANGE IN FUND BALANCE	(808,748)
FUND BALANCE AT BEGINNING OF YEAR	<u>725,456</u>
FUND BALANCE AT END OF YEAR	<u>\$ (83,292)</u>

See accompanying notes to the basic financial statements.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND \$ (808,748)

The Governmental Fund reports capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Capital outlays	88,169
Depreciation	(259,740)

Pension plan expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in Governmental Funds.

638,000

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (342,319)

See accompanying notes to the basic financial statements.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - ORGANIZATION

The General David B. Birney Charter School (the "School") is organized as a not-for-profit organization and has applied for exemption under Section 501(c)(3) of the Internal Revenue Code. The School operates a charter school in Philadelphia, Pennsylvania, under an approved charter received from The School District of Philadelphia (the "District"), acting pursuant to authority conferred under the Public School Code of 6-696, as amended by Act 83 of 2001, the Charter School Law, 24 P.S. Sections 17-1701-A et. seq. The initial charter established on July 1, 2011, is for a five-year term. The School is currently in the renewal process for charter renewal beyond June 2016.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

The School presents the General Fund as its major Governmental Fund. The General Fund is for general operating purposes of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

Financial Statement Presentation and Measurement Focus

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 presents a comparison between the direct expenses and revenues of each function of the School's activities. Revenues that are not classified as program revenues, including statutory funding from state and local governments, are presented as general revenues. These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. On an accrual basis, revenues are recorded when earned, and expenses are recorded when the liability is incurred.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund financial statements provide information about the School's funds. The emphasis of fund financial statements is on the major Governmental Fund, which is the School's General Fund. These financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when the liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures to the extent they have matured. General capital acquisitions are reported as expenditures in the General Fund.

Budgetary Data

An annual budget is adopted for the General Fund using the accrual basis of accounting. The budgetary comparison schedule of the General Fund presents the budget filed with and accepted by the Pennsylvania Department of Education as its budgeted amounts.

Use of Estimates

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

Cash

The School pools its money in the General Fund to facilitate disbursement. The School places its cash investments with high credit quality financial institutions. At times, such deposits may be in excess of the FDIC insurance limit.

Capital Assets

The School's capital assets are reported in the government-wide financial statements at original cost. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not. The School defines a capital asset as an asset with an original cost equal to or greater than \$1,000 with an estimated useful life greater than one year. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets (five to seven years).

Accounts Receivable

The School's receivables consist of grants and subsidies from federal, state and local government agencies. Accordingly, all such receivables are considered by management to be fully collectible, and no allowance for doubtful accounts has been recorded.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funding

The School is funded primarily from the local school district in which a student resides by receiving an amount equal to the calculation of selected expenditures per average daily membership for each child attending the School. Additional funding is received under local, state and federal grants and subsidies. Funding is recognized as revenue as it is earned. The School's funding for tuition is received entirely from the School District of Philadelphia.

Fund Balance

Fund balance is classified as follows:

- ***Nonspendable*** - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- ***Restricted*** - Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors or creditors.
- ***Committed*** - Amounts that can be used only for specific purposes determined by a formal action by the Board of Directors. This includes the budget reserve account.
- ***Assigned*** - Amounts that are intended to be used for a specific purpose, as expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.
- ***Unassigned*** - All amounts not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net assets), the School's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In the Governmental Fund, the School's policy is to first apply the expenditure toward restricted fund balance and then to other, less restrictive classifications--committed and then assigned fund balance before using unassigned fund balance.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School has one item that qualifies for reporting in this category, a deferred outflow related to pension activity, reported in the government-wide statement of net position. The deferred outflow related to pension activity is the result of changes in the School's proportionate share of the total plan from year to year, the difference between actual employer contributions and the School's proportionate share of total contributions, and actual contributions subsequent to the measurement date.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statement of net 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(s) and so will not be recognized as an inflow of resources (revenue) until then. The School has one item that qualifies for reporting in this category. Deferred inflows related to pension activity is the result of differences between projected and actual investment earnings. These amounts are deferred and recognized as in inflow of resources in the period that amounts become available.

Income Tax

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The School believes 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. The School's federal Return of Organization Exempt From Income Tax (Form 990) for tax year 2011 is subject to examination by the IRS, generally for three years after the tax return was filed. There are currently no audits in progress for any tax period.

NOTE C - CASH

As of June 30, 2015, the School had bank balances of \$712,315 and a carrying value of \$531,462. At June 30, 2015, there was cash of \$462,315 in excess of federal depository insurance limits.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, is as follows:

	Beginning Balance	Increase (Decrease)	Ending Balance
CAPITAL ASSETS BEING DEPRECIATED			
Charter costs	\$ -	\$ 22,209	\$ 22,209
Furniture and equipment	-	-	-
Building improvements	-	4,264,176	4,264,176
TOTAL CAPITAL ASSETS BEING DEPRECIATED	-	4,286,385	4,286,385
Accumulated depreciation			
Charter costs	(225,000)	225,000	-
Furniture and equipment	(271,471)	271,471	-
Building improvements	(100,654)	100,654	-
TOTAL ACCUMULATED DEPRECIATION	(597,125)	597,125	-
CAPITAL ASSETS, net	\$ (597,125)	\$ 4,883,510	\$ 4,286,385

For the year ended June 30, 2015, there was unallocated depreciation expense of \$259,740.

NOTE E - COMMITMENTS AND CONTINGENCIES

Operating Lease

The School facilities are leased month-to-month from the School District of Philadelphia. Current monthly rent is \$20,875 per month. Total rent expense for the year ended June 30, 2015, was approximately \$250,505.

Management Agreement

The School contracts for educational and administrative services with a management company. The management contract provided for payment of management fees of 12.5% of state, local and unrestricted federal funds received by the School. The School recorded total fees of approximately \$910,668 for the year ended June 30, 2015. In July, 2015 the School ended its contract with its previous management company and obtained the services of a new management company.

Litigation

The School may be a defendant in various matters of litigation and claims at any time during a given school year. These matters result from the normal course of business.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - PENSION PLAN

Summary of Significant Accounting Policies

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

General Information About the Pension Plan

Plan Description - PSERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to public school employees of the Commonwealth of Pennsylvania. The members eligible to participate in the System include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. PSERS issues a publicly available financial report that can be obtained at www.psers.state.pa.us.

NOTE F - PENSION PLAN (Continued)

Benefits Provided - PSERS provides retirement, disability and death benefits. Members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum three years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. Benefits are generally equal to 2% or 2.5%, depending on membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. For members whose membership started prior to July 1, 2011, after completion of five years of service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service.

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

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - PENSION PLAN (Continued)

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

Contributions

Members Contributions

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

Employer Contributions

The School's contractually required contribution rate for the fiscal year ended June 30, 2015, was 20.50% of covered payroll, actuarially determined as an amount that, when combined with employee contributions is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the plan from the School were \$763,000 for the year ended June 30, 2015.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - PENSION PLAN (Continued)

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the School reported a liability of \$11,518,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2013 to June 30, 2014. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School's proportion was .0291%, which was a decrease of .0111% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School recognized pension expense of \$125,000. At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	823,000
Changes in proportions	-	3,662,000
Difference between employer contributions and proportionate share of total contributions	-	5,000
Contributions subsequent to the measurement date	<u>763,000</u>	<u>-</u>
	<u>\$ 763,000</u>	<u>\$ 4,490,000</u>

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - PENSION PLAN (Continued)

\$763,000 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the new pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2016	\$ (1,089,000)
2017	(1,089,000)
2018	(1,089,000)
2019	(1,089,000)
2020	<u>(134,000)</u>
	<u>\$ (4,490,000)</u>

Actuarial Assumptions - The total pension liability as of June 30, 2014, was determined by rolling forward the System's total pension liability as of the June 30, 2013 actuarial valuation to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

- **Actuarial Cost Method** - Entry Age Normal - level % of pay
- **Investment Return** - 7.5%, includes inflation at 3.00%
- **Salary Increases** - Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1% and merit or seniority increases of 1.50%
- Mortality rates were based on the RP-2000 Combined Healthy Annuitant Table (male and female) with age set back three years for both males and females. For disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the experience study that was performed for the five-year period ending June 30, 2010. The recommended assumption changes based on this experience study were adopted by the Board at its March 11, 2011 Board meeting and were effective beginning with the June 30, 2011 actuarial valuation.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - PENSION PLAN (Continued)

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

The plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension.

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

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

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - PENSION PLAN (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
School District's proportionate share of the net pension liability	\$ <u>14,367,000</u>	\$ <u>11,518,000</u>	\$ <u>9,086,000</u>

Pension Plan Fiduciary Net Position - Detailed information about PSERS's fiduciary net position is available in the PSERS Comprehensive Annual Financial Report which can be found on the System's website at www.psers.state.pa.us.

NOTE G - 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 maintains general liability and errors and omissions insurance coverage with a commercial carrier. In addition, the School carries commercial coverage for all other significant risks of loss. There have been no claims thus far that have exceeded the coverage limits.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE H - PRIOR PERIOD ADJUSTMENT

The School implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, effective July 1, 2014.

The objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pension plans. GASB Statement No. 68 states that local governments have to record their share of the Public School Employees' Retirement System (PSERS) unfunded liability.

For the government-wide governmental activities, the School has treated their proportionate share of beginning of year net pension liability of \$16,457,000 and beginning of year deferred outflows of resources of \$574,000 as having been recognized in the period incurred. The School has adjusted beginning net position for the governmental activities from \$1,433,151 to \$(14,449,849).

REQUIRED SUPPLEMENTARY INFORMATION

GENERAL DAVID B. BIRNEY CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Variance With Final Budget Over (Under) Budget</u>
	<u>Original and Final</u>	<u>Actual Amounts</u>	
REVENUES			
Local aid	\$ 6,705,115	\$ 6,645,416	\$ (59,699)
Federal aid	558,900	325,425	(233,475)
State aid	392,000	288,362	(103,638)
Miscellaneous income	<u>15,500</u>	<u>18,451</u>	<u>2,951</u>
TOTAL REVENUES	<u>7,671,515</u>	<u>7,277,654</u>	<u>(393,861)</u>
EXPENDITURES			
Current			
Instructional services	5,005,024	5,271,233	266,209
Supporting services	2,651,491	2,727,000	75,509
Capital outlays	<u>15,000</u>	<u>88,169</u>	<u>73,169</u>
TOTAL EXPENDITURES	<u>7,671,515</u>	<u>8,086,402</u>	<u>414,887</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>(808,748)</u>	<u>\$ (808,748)</u>
FUND BALANCE AT BEGINNING OF YEAR		<u>725,456</u>	
FUND BALANCE AT END OF YEAR		<u>\$ (83,292)</u>	

See accompanying note to the required supplementary information.

GERALD DAVID B. BIRNEY CHARTER SCHOOL
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015

NOTE A - EXCESS APPROPRIATIONS

Excess appropriations for instructional services, supporting services and capital outlay were funded with General Fund balance.

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30 2015

School District's proportion of the net pension liability (asset)	0.0291%
School District's proportionate share of the net pension liability (asset)	\$ 11,518,000
School District's covered-employee payroll	\$ 3,718,337
School District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	309.76%
The plan's fiduciary net position as a percentage of the total pension liability	57.24%

GENERAL DAVID B. BIRNEY CHARTER SCHOOL
SCHEDULE OF SCHOOL CONTRIBUTIONS
YEAR ENDED JUNE 30 2015

Contractually required contribution	\$ 763,000
Contributions in relation to the contractually required contribution	<u>763,000</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>
School District's covered-employee payroll	<u>\$ 3,721,951</u>
Contributions as a percentage of covered-employee payroll	20.50%