

**TACONY ACADEMY CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)**

**TACONY ACADEMY CHARTER SCHOOL  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016**

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**TACONY ACADEMY CHARTER SCHOOL  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Tacony Academy Charter School  
Philadelphia, Pennsylvania

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, and each major fund of **TACONY ACADEMY CHARTER SCHOOL** (a nonprofit organization) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the **TACONY ACADEMY CHARTER SCHOOL**'s basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Frankford Valley Foundation for Literacy II were not audited in accordance with Government Auditing Standards.

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

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, and each major fund of **TACONY ACADEMY CHARTER SCHOOL** as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Summarized Comparative Information***

We have previously audited **TACONY ACADEMY CHARTER SCHOOL**'s 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 17, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 8 and budgetary comparison information, schedules of the proportionate share of the net pension liability and the schedule of employer contributions on pages 38 - 41 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 **TACONY ACADEMY CHARTER SCHOOL**'s basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally

accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2016, on our consideration of **TACONY ACADEMY CHARTER SCHOOL**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **TACONY ACADEMY CHARTER SCHOOL**'s internal control over financial reporting and compliance.

*Haebele, Flanagan & Co., P.C.*

Maple Shade, New Jersey

December 8, 2016

**TACONY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

The Board of Trustees of the **TACONY ACADEMY CHARTER SCHOOL** (the School) offers readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

**Financial Highlights**

- Total governmental activities revenues, as reported on the statement of activities, for the year ended June 30, 2016 were \$13,266,375, which consisted of \$11,221,577 from local educational agency funding, \$1,650,856 from federal grants, \$266,256 from state funding, and \$127,686 from other sources. This revenue represents an increase from the prior year of \$69,076.
- At the close of the current fiscal year, the School reports an ending governmental fund balance of \$5,051,946. The School's ending fund balance at June 30, 2015 was \$5,598,029. The decrease in fund balance is a result of \$546,083 excess of expenditures over revenues for the year ended June 30, 2016.
- The School's cash balance at June 30, 2016 was \$5,197,089, representing a decrease from the prior year of \$14,205. The School's cash balance at June 30, 2015 was \$5,211,294.

**Overview of the Financial Statements**

The discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's financial statements as presented comprise four components: Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information consisting of the budgetary comparison and other information, and reports required under *Government Auditing Standards* and the Uniform Guidance.

*Government-Wide Financial Statements*

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

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

The *statement of activities* presents information showing how the School's net position changed during the most recent 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.

**TACONY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**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.

*Fund Financial Statements*

A *fund* is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has two governmental funds - the general fund and the food service fund.

*Notes to the Financial Statements*

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

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities exceeded assets by \$6,107,050 as of June 30, 2016, which is a decrease in total net position of \$783,321 from June 30, 2015. The change is a result of the change in the deferred outflows and inflows of resources generated by the pension plan.

<u>Assets</u>	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Cash	\$ 5,197,089	\$ 5,211,294
Accounts receivable	622	205,456
Federal subsidies receivable	179,439	295,618
State subsidies receivable	249,892	165,787
Due from related party	237,040	193,102
Prepaid expenses and other assets	924,739	858,351
Capital Assets, net of accumulated depreciation	149,543	49,097
Total Assets	6,938,364	6,978,705



**TACONY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
<u>Deferred Outflows of Resources</u>	\$ 2,458,745	\$ 2,814,645
<u>Liabilities</u>		
Accounts payable	\$ 768,298	\$ 280,194
Salaries and benefits payable	968,577	1,051,385
Deferred revenue	8,284	2,500
Net pension liability	12,258,000	12,863,000
Total Liabilities	14,003,159	14,197,079
<u>Deferred Inflows of Resources</u>	\$ 1,501,000	\$ 920,000
<u>Net Position</u>		
Net investment in capital assets	149,543	49,097
Unrestricted	(6,256,593)	(5,372,826)
Total Net Position	\$ (6,107,050)	\$ (5,323,729)

The School's revenues are predominately from the School District of Philadelphia based on the student enrollment. For the year ended June 30, 2016, the School's total expenditures of \$14,049,696 exceeded total revenues of \$13,266,375 by \$783,321. At June 30, 2015, the School's total expenditures of \$13,502,981 exceeded total revenues of \$13,197,299 by \$305,682. The increase in expenditures is due to costs associated with an issue surrounding payroll taxes, including losses and legal fees, as well as an increase in food service costs.

Revenues	<u>2016</u>	<u>2015</u>
Local educational agencies	\$ 11,221,577	\$ 11,409,519
Federal sources	1,650,856	1,275,876
State sources	266,256	288,205
Other sources	127,686	223,699
Total revenues	13,266,375	13,197,299

**TACONY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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

Expenditures	<u>2016</u>	<u>2015</u>
Instruction	5,780,605	5,868,665
Staff support services	405,488	421,662
Instructional support services	225,210	353,012
Administrative support services	2,365,513	1,876,296
Nursing services support	131,357	131,252
Business support services	300,585	300,792
Student activities	118,029	104,150
Non-instructional services	338,241	303,221
Community service	92,318	96,584
Facility services	3,702,036	3,529,455
Food service	590,314	517,892
Total expenditures	14,049,696	13,502,981
 Change in net position	 (783,321)	 (305,682)
Net position, beginning of year, as originally reported	(5,323,729)	5,007,635
Cumulative effect of adoption of accounting standard	-0-	(10,025,682)
Net position, beginning of year, as restated	(5,323,729)	(5,018,047)
Net position, end of year	\$ (6,107,050)	\$ (5,323,729)

**Governmental Funds**

The focus of the School's governmental funds 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 fiscal year end.

In 2016, the School's governmental funds (the general and food service funds) reported an ending fund balance of \$5,051,946. For the year ended June 30, 2016, the School's expenditures (\$13,812,458) were more than revenues (\$13,266,375) by \$546,083. The subsidy revenue received from the School District of Philadelphia is \$11,221,577 of total governmental fund revenue. This represents a decrease of \$187,942 from June 30, 2015. The largest asset in the School's governmental fund as of June 30, 2016 is cash of \$5,197,089.

**TACONY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

**Governmental Fund Budgetary Highlights**

At June 30, 2016, the actual revenues were less than budgeted revenues by \$1,754. Actual expenditures exceeded budgeted expenditures by \$582,586, primarily due to more instruction expenditures and a loss of \$217,752 related to payroll liabilities.

**Capital Asset and Debt Administration**

Capital assets: As of June 30, 2016, the School's investment in capital assets for its governmental activities totaled \$149,543, net of accumulated depreciation. This investment in capital assets includes computer equipment, furniture and fixtures, and leasehold improvements. During the year ended June 30, 2016, the School incurred \$146,755 in additions to capital assets. Depreciation expense was \$46,309 for the year ended June 30, 2016.

Additional information on the School's capital assets can be found in Note 3 of this report.

Long-term debt

The School had no long-term debt as of June 30, 2016.

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

The School's primary source of revenue, the per student subsidy provided by the School District of Philadelphia, will change for the fiscal year 2016-2017. The rate per regular education student will be \$8,487 and the annual rate per special education student will be \$25,624 for the fiscal year 2016-2017.

**Future Events that will Financially Impact the School**

The School expects enrollment of 1,075 students. At this time, no other significant events are expected to occur that would have a material financial impact.

**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 the School's Controller, Santilli and Thomson, LLC, 601 Route 73 North, Suite 302, Marlton, NJ 08053.

**TACONY ACADEMY CHARTER SCHOOL**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)**

	2016		2015	
	School	Foundation	School	Foundation
<b>ASSETS</b>				
Cash	\$ 5,197,089	\$ 40,439	\$ 5,211,294	\$ 1,214,500
Accounts receivable	622	-0-	205,456	-0-
Federal subsidies receivable	179,439	-0-	295,618	-0-
State subsidies receivable	249,892	-0-	165,787	-0-
Due from related party	237,040	-0-	193,102	-0-
Prepaid expenses and other assets	924,739	-0-	858,351	-0-
Bond issue costs, net	-0-	779,980	-0-	808,172
Restricted escrow deposits	-0-	3,116,661	-0-	10,522,950
Capital assets, not being depreciated	-0-	1,380,712	-0-	1,380,712
Capital assets, net of accumulated depreciation	149,543	26,346,018	49,097	20,847,640
<b>Total assets</b>	<b>\$ 6,938,364</b>	<b>\$ 31,663,810</b>	<b>\$ 6,978,705</b>	<b>\$ 34,773,974</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 2,458,745</b>	<b>\$ -0-</b>	<b>\$ 2,814,645</b>	<b>\$ -0-</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 768,298	\$ 296,661	\$ 280,194	\$ 2,815,161
Salaries and benefits payable	968,577	-0-	1,051,385	-0-
Deferred revenue	8,284	608,890	2,500	728,890
Due to related party	-0-	237,040	-0-	193,102
Bonds payable - current	-0-	170,000	-0-	270,000
Bonds payable - long-term	-0-	30,800,000	-0-	30,970,000
Net pension liability	12,258,000	-0-	12,863,000	-0-
<b>Total liabilities</b>	<b>\$ 14,003,159</b>	<b>\$ 32,112,591</b>	<b>\$ 14,197,079</b>	<b>\$ 34,977,153</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 1,501,000</b>	<b>\$ -0-</b>	<b>\$ 920,000</b>	<b>\$ -0-</b>
<b>NET POSITION</b>				
Net investment in capital assets	149,543	(1,318,727)	49,097	(525,772)
Temporarily restricted	-0-	869,946	-0-	322,593
Unrestricted	(6,256,593)	-0-	(5,372,826)	-0-
<b>Total net position</b>	<b>\$ (6,107,050)</b>	<b>\$ (448,781)</b>	<b>\$ (5,323,729)</b>	<b>\$ (203,179)</b>

**TACONY ACADEMY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)**

Functions	Expenses	Program Revenues		2016		2015	
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Assets
				Total Governmental Activities	Total Component Unit	Total Governmental Activities	Total Component Unit
<b>Governmental activities</b>							
Instruction	\$ 5,780,605	\$ -0-	\$ 1,123,265	\$ (4,657,340)	\$ -0-	\$ (4,963,627)	\$ -0-
Staff support services	405,488	-0-	-0-	(405,488)	-0-	(421,662)	-0-
Instructional support services	225,210	-0-	-0-	(225,210)	-0-	(353,012)	-0-
Administrative support services	2,365,513	-0-	-0-	(2,365,513)	-0-	(1,876,296)	-0-
Nursing services support	131,357	-0-	-0-	(131,357)	-0-	(131,252)	-0-
Business support services	300,585	-0-	-0-	(300,585)	-0-	(300,792)	-0-
Student activities	118,029	-0-	-0-	(118,029)	-0-	(104,150)	-0-
Non-instructional services	338,241	-0-	-0-	(338,241)	-0-	(303,221)	-0-
Community service	92,318	-0-	-0-	(92,318)	-0-	(96,584)	-0-
Facility services	3,702,036	-0-	-0-	(3,702,036)	-0-	(3,529,455)	-0-
Food service	590,314	-0-	527,591	(62,723)	-0-	(147,054)	-0-
Total governmental activities	<u>\$ 14,049,696</u>	<u>\$ -0-</u>	<u>\$ 1,650,856</u>	<u>\$ (12,398,840)</u>	<u>\$ -0-</u>	<u>\$ (12,227,105)</u>	<u>\$ -0-</u>
<b>Component Unit</b>							
Other expense	<u>\$ 2,977,154</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (2,977,154)</u>	<u>\$ -0-</u>	<u>\$ (2,670,593)</u>
Total component unit	<u>\$ 2,977,154</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (2,977,154)</u>	<u>\$ -0-</u>	<u>\$ (2,670,593)</u>
<b>General revenues</b>							
Local educational agencies				11,221,577	-0-	11,409,519	-0-
State grants and reimbursements				266,256	-0-	288,205	-0-
All other revenues				127,686	2,731,552	223,699	2,534,217
Total general revenues				<u>11,615,519</u>	<u>2,731,552</u>	<u>11,921,423</u>	<u>2,534,217</u>
Changes in net position				(783,321)	(245,602)	(305,682)	(136,376)
Net position, beginning of year, as originally reported				(5,323,729)	(203,179)	5,007,635	(66,803)
Cumulative effect of adoption of accounting standard				-0-	-0-	(10,025,682)	-0-
Net position, beginning of year, as restated				<u>(5,323,729)</u>	<u>(203,179)</u>	<u>(5,018,047)</u>	<u>(66,803)</u>
Net position, end of year				<u>\$ (6,107,050)</u>	<u>\$ (448,781)</u>	<u>\$ (5,323,729)</u>	<u>\$ (203,179)</u>

**TACONY ACADEMY CHARTER SCHOOL**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)**

	2016			2015
	General Fund	Food Service Fund	Total Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 5,088,641	\$ 108,448	\$ 5,197,089	\$ 5,211,294
Accounts receivable	622	-0-	622	205,456
Federal subsidies receivable	99,348	80,091	179,439	295,618
State subsidies receivable	245,465	4,427	249,892	165,787
Due from related party	237,040	-0-	237,040	193,102
Prepaid expenses and other assets	924,739	-0-	924,739	858,351
Due from other funds	274,301	-0-	274,301	235,843
Total Assets	<u>\$ 6,870,156</u>	<u>\$ 192,966</u>	<u>\$ 7,063,122</u>	<u>\$ 7,165,451</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Liabilities				
Accounts payable	\$ 735,255	\$ 33,043	\$ 768,298	\$ 280,194
Accrued salaries and benefits	968,577	-0-	968,577	1,051,385
Due to other funds	-0-	274,301	274,301	235,843
Due to related party	-0-	-0-	-0-	-0-
Total Liabilities	<u>1,703,832</u>	<u>307,344</u>	<u>2,011,176</u>	<u>1,567,422</u>
Fund balance				
Nonspendable	924,739	-0-	924,739	858,351
Unassigned	4,241,585	(114,378)	4,127,207	4,739,678
Total Fund Balance (Deficit)	<u>5,166,324</u>	<u>(114,378)</u>	<u>5,051,946</u>	<u>5,598,029</u>
Total Liabilities and Fund Balance	<u>\$ 6,870,156</u>	<u>\$ 192,966</u>	<u>\$ 7,063,122</u>	<u>\$ 7,165,451</u>

**TACONY ACADEMY CHARTER SCHOOL  
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016  
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)**

	2016	2015
Total fund balance for governmental funds	\$ 5,051,946	\$ 5,598,029
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. These assets consist of:		
Computer equipment, furniture and fixtures, and leasehold improvements, net of accumulated depreciation	149,543	49,097
Deferred revenue	(8,284)	(2,500)
Deferred outflows of resources are not financial resources and therefore, are not reported in the funds.	2,458,745	2,814,645
Long-term liabilities and deferred inflows of resources are not due and payable in the current period and therefore, are not reported in the funds.		
Net pension liability	(12,258,000)	(12,863,000)
Deferred inflows of resources	(1,501,000)	(920,000)
Total net position of governmental activities	\$ (6,107,050)	\$ (5,323,729)

**TACONY ACADEMY CHARTER SCHOOL**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)**

	2016			2015
	General Fund	Food Service Fund	Total Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local educational agencies	\$ 11,221,577	\$ -0-	\$ 11,221,577	\$ 11,409,519
Federal sources	1,123,265	527,591	1,650,856	1,275,876
State sources	239,352	26,904	266,256	288,205
Other sources	65,106	62,580	127,686	223,699
<b>Total revenues</b>	<b>12,649,300</b>	<b>617,075</b>	<b>13,266,375</b>	<b>13,197,299</b>
<b>Expenditures</b>				
Instruction	5,524,980	-0-	5,524,980	5,200,765
Staff support services	383,342	-0-	383,342	370,025
Instructional support services	212,463	-0-	212,463	315,046
Administrative support services	2,319,342	-0-	2,319,342	1,761,379
Nursing services support	131,357	-0-	131,357	131,252
Business support services	289,345	2,292	291,637	278,244
Student activities	111,958	-0-	111,958	89,849
Non-instructional services	338,241	-0-	338,241	303,221
Community service	86,726	-0-	86,726	81,181
Facility services	3,683,675	3,814	3,687,489	3,502,252
Food service	-0-	578,168	578,168	484,426
Capital outlays	146,755	-0-	146,755	9,213
<b>Total expenditures</b>	<b>13,228,184</b>	<b>584,274</b>	<b>13,812,458</b>	<b>12,526,853</b>
Revenue over (under) expenditures	(578,884)	32,801	(546,083)	670,446
<b>Other financing sources</b>				
Transfers to (from) general fund	-0-	(78,035)	(78,035)	37,906
Transfers to (from) food fund	78,035	-0-	78,035	(37,906)
<b>Total other financing sources</b>	<b>78,035</b>	<b>(78,035)</b>	<b>-0-</b>	<b>-0-</b>
Net change in fund balance	(500,849)	(45,234)	(546,083)	670,446
Fund balance (deficit), beginning of year	5,667,173	(69,144)	5,598,029	4,927,583
<b>Fund balance (deficit), end of year</b>	<b>\$ 5,166,324</b>	<b>\$ (114,378)</b>	<b>\$ 5,051,946</b>	<b>\$ 5,598,029</b>



**TACONY ACADEMY CHARTER SCHOOL  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)**

	2016	2015
Net change in fund balance - Total governmental funds	\$ (546,083)	\$ 670,446
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized, and the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital outlays	146,755	9,213
Depreciation expense	(46,309)	(40,167)
	100,446	(30,954)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Deferred Revenue	(5,784)	(2,501)
Pension expense	(331,900)	(942,673)
Change in net position of governmental activities	\$ (783,321)	\$ (305,682)

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies**

Nature of Entity

Tacony Academy Charter School (the School) is organized as a nonprofit corporation in Pennsylvania to operate a charter school in accordance with Pennsylvania Act 22 of 1997. The Mission of the School is to enhance, support and promote creative and critical thinking as well as the problem solving skills of school-age learners in the making of original inventions as amazing solutions to puzzling problems while mastering Pennsylvania and national standards. The School has a component unit, the Frankford Valley Foundation for Literacy II. The School is currently operating under a five (5) year charter renewal ending June 2017.

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 Governmental Accounting Standards Board (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.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report on all of the activities of the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of a given segment are affected by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include federal contracts for specified instruction related services. State and local educational agency contract revenues and other items not included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements 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

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies (continued)**

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

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 an expenditure. 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 expenditure.

*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 spending resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during the period.

Because of their spending measurement focus, expenditure recognition for governmental fund types exclude 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.

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies (continued)**

*Fund Financial Statements (continued)*

The School reports the following major governmental funds:

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

Food Service Fund – The Food Service Fund is a Governmental Fund that is used to account for the Food Service Program.

*Net Position/Fund Balances*

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in capital assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- Restricted – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The School presently has no restricted net position.
- Unrestricted – This category represents the net position of the School that is not restricted for any project or other purpose.

The governmental financial statements segregate portions of fund balance that are either not available or have been earmarked 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.

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies (continued)**

*Net Position/Fund Balances (continued)*

- 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 contained in other classifications.

When both restricted or unrestricted fund balances are available, it is the policy of the School to use restricted resources first; followed by committed and then assigned resources as they are needed for the included program, but they reserve the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. An annual budget is adopted for the General Fund. A budget was not adopted for the Food Service Fund in 2016.

The Budgetary Comparison Schedule should present both the original and the final appropriated budgets for the reporting period. The School only has a general fund budget; therefore, the original budget filed and accepted by the Labor, Education and Community Services Comptroller’s Office is the final budget as well. The budget 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash

The School's cash is considered to be cash on hand and demand deposits.

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies (continued)**

Receivables

Receivables consist of subsidies from federal, state, and local authorities under various programs and grants. Receivables are stated at the amount management expects to collect for outstanding balances. As of June 30, 2016, no allowance for doubtful accounts was deemed necessary.

Prepaid Expenses

Prepaid expenses at June 30, 2016 include payments to vendors for services applicable to future accounting periods such as professional retainers or rental payments and insurance premiums.

Capital Assets

Capital assets, which include computer equipment, furniture and fixtures, and leasehold improvements, 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. 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 charged to expense as incurred. Capital assets of the School are depreciated using the straight-line method over the useful lives of the assets; computer equipment (5 years), furniture and fixtures (7 years), and leasehold improvements (2 to 3 years).

Deferred Outflows of Resources

Decreases in net assets that relate to future periods are recorded as deferred outflows of resources in a separate section of its government-wide statements of net position. Deferred outflows of resources are generally reported in the School's statements of net position for contributions made subsequent to the measurement date.

Deferred Inflows of Resources

Increases in net assets that apply to future periods are recorded as deferred inflows of resources in a separate section of its government-wide statements of net position. Deferred inflows of resources are reported in the School's statements of net position for actual pension plan investment earnings in excess of projected amounts included in determining pension expense. Deferred inflows of resources are attributed to pension expense over a total of 5 years, including the current year.

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies (continued)**

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Public School Employees Retirement System (PSERS) and addition 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.

Income Tax Status

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. For the year ended June 30, 2016, the School had no unrelated business income. The School 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 Exempt Organization Income Tax Returns (Form 990) for 2015, 2014, and 2013, are subject to examination by the IRS, generally for up to three years after filed.

Reclassification

Certain items in the 2015 financial statements were reclassified to conform with the 2016 financial statement presentation.

Adoption of New Accounting Standards

Effective July 1, 2014, the School retroactively changed its method of recognizing pension expense and related liabilities in its financial statements to conform with the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date". The change was adopted retroactively. It was not practicable to determine the effect of all items on the 2014 financial statements of applying the new method retroactively. As a result, the cumulative effect of applying the new method retroactively as of July 1, 2014 was to record a net pension liability of \$10,766,000, deferred outflows of \$740,318, and a decrease in net position of \$10,025,682.

During the year ended June 30, 2016, the School adopted the provisions of GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement No. 68, and amendments to certain provisions of GASB Statements

**TACONY ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 1 – Summary of Significant Accounting Policies (continued)**

Adoption of New Accounting Standard (continued)

No. 67 and 68". The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external reports of state and local governments for making decisions and assessing accountability. The statement also clarifies application of certain provisions of GASB Statements 67 and 68 with regard to (1) information that is required to be presented as notes to the 10-year schedules of supplementary information about investment-related factors; (2) accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions; and (3) timing of employer recognition of revenue for support of nonemployer contributing entities not in a special funding situation. The adoption of this statement did not have a material impact on the financial statements.

**Note 2 – Deposit Risk**

Custodial credit risk is the risk that in the event of a failure of the counterparty, the School will not be able to recover the value of its deposits or collateral securities that are in possession of an outside party. The School does not have a policy for custodial credit risk. As of June 30, 2016, the School's bank balances were not exposed to custodial credit risk as shown in the following table:

Reconciliation to the Financial Statements

Collateralized pursuant to PA Act 72	\$ 5,124,814
Plus: insured amount	250,000
Less: outstanding checks	(177,725)
Plus: deposits in transit	<u>-0-</u>
Total cash per financial statements	<u>\$ 5,197,089</u>

Periodically, the School may maintain deposits in excess of the Federal Deposit Insurance Corporation's limit of \$250,000, with financial institutions. Under Pennsylvania Act 72, financial institutions pledge collateral on a pooled basis to secure public deposits in excess of FDIC insurance limits. The School's accounts are covered by this act.

**Note 3 – Capital Assets**

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



**TACONY ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 3 – Capital Assets (continued)**

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Computer equipment	\$ 152,152	\$ 14,070	\$ -0-	\$ 166,222
Machinery and equipment	-0-	46,100	-0-	46,100
Furniture and fixtures	183,236	6,840	-0-	190,076
Leasehold improvements	<u>-0-</u>	<u>79,745</u>	<u>-0-</u>	<u>79,745</u>
Total	335,388	146,755	-0-	482,143
Accumulated depreciation	<u>(286,291)</u>	<u>(46,309)</u>	<u>-0-</u>	<u>(332,600)</u>
	<u>\$ 49,097</u>	<u>\$ 100,446</u>	<u>\$ -0-</u>	<u>\$ 149,543</u>

Depreciation expense for the year ended June 30, 2016 was \$46,309, and is included in instruction, business services, building services, and food services on the statement of activities.

**Note 4 – Local Educational Agency Revenue**

Charter schools are funded by the local public school district in which each student resides. The rate per student is determined annually and is based on the budgeted total expenditure per average daily membership of the prior school year for each school district. All of the students for the School reside in Philadelphia. For the year ended June 30, 2016, the rate for the School District of Philadelphia was \$7,745 per year for regular education students and \$23,719 for special education students. The annual rate is paid monthly by the School District of Philadelphia and is prorated if a student enters or leaves during the year.

For the year ended June 30, 2016, total revenue from local educational agencies was \$11,221,577 including \$6,865,004 for regular education students and \$4,356,573 for special education students.

**Note 5 – Government Grants and Reimbursement Programs**

The School participates in numerous state and federal grant and reimbursement programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and reimbursement programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants and reimbursement programs, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 and 2015 may be impaired. In the opinion of the School, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**TACONY ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 6 – Operating Leases**

The School leased the 6201 Rising Sun Avenue high school. The lease expired July 2015. Total lease expense under this lease for the year ended June 30, 2016 was \$16,064.

The School leases the 1330 Rhawn Street Elementary School building and the 6201 Keystone Street High School building from the Frankford Valley Foundation for Literacy II, the designated foundation for the School. The leases have an original thirty (30) year term and the base payment amounts of \$185,000 per month remains constant throughout the term of the leases. Total lease expense under this agreement for the year ended June 30, 2016 was \$2,739,850 and is included in facility services expenses on the accompanying Statement of Activities

Future minimum annual payments required under non-cancelable operating lease agreements as of June 30, 2016 are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 2,334,025
2018	\$ 2,553,613
2019	\$ 2,588,869
2020	\$ 2,585,413
2021	\$ 2,585,413
Thereafter	\$ 59,538,014

**Note 7 – Financial Management Fee**

Santilli & Thomson, LLC provides management services for the School under a management agreement that expires June 30, 2017. Total fees incurred under the management agreement for the year ended June 30, 2016 was \$128,323.

**Note 8 – Retirement Plan**

General information about the Public School Employees’ Retirement System

*Plan description*

The School contributes to the Public School Employees’ Retirement System (the “System”, or “PSERS”), 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](http://www.psers.state.pa.us).

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 8 – Retirement Plan (continued)**

General information about the Public School Employees' Retirement System (continued)

*Benefits*

PSERS provides retirement, disability, and death benefits. Members are generally eligible for monthly retirement benefits upon reaching (a) age 62 with at least one year of credited service; (b) age 60 with thirty or more years of credited service; or (c) thirty-five or more years of service regardless of age. Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary multiplied by the number of years of credited service.

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

Death benefits are payable upon the death of an active member who has generally reached age 62 with at least one year of credited service. Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

*Contributions*

The rate of contribution for members range from 5.25% - 7.5% depending upon member classification and elections. The School's contractually required contribution rate for fiscal year ended June 30, 2016 was 25% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School were \$906,745 for the year ended June 30, 2016.

**Note 9 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The components of the total net pension liability of the participating employers at the June 30, 2015 measurement date were as follows:

Total pension liability	\$ 94,900,830,000
Plan fiduciary net position	<u>(51,585,521,000)</u>
Employer net pension liability	<u>\$ 43,315,309,000</u>

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 9 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Plan fiduciary net position as a  
percentage of the total pension liability 54.36%

At June 30, 2016, the School reported a liability of \$12,258,000 representing its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System’s total pension liability as of June 30, 2014 to June 30, 2015. The School’s proportionate share 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. As of June 30, 2015, the School’s proportion was 0.0283%, which was a decrease of 0.0042 from its proportion measured as of June 30, 2014 of 0.0325%.

For the year ended June 30, 2016, the School recognized pension expense of \$1,238,645. At June 30, 2016, 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>
Differences between expected and actual experience	\$ -0-	\$ 51,000
Net difference between projected and actual investment earnings	-0-	25,000
Changes in proportions	1,552,000	1,425,000
Contributions subsequent to measurement date	<u>906,745</u>	<u>-0-</u>
Total	<u>\$ 2,458,745</u>	<u>\$ 1,501,000</u>

\$906,745 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30,	
2017	\$ 68,000
2018	68,000
2019	68,000
2020	<u>(153,000)</u>
	<u>\$ 51,000</u>

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 9 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

*Actuarial Assumptions (continued)*

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

- Actuarial cost method - Entry Age Normal – level % of pay
- Investment return – 7.50%, includes inflation at 3.00%
- Salary increases – Effective average of 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%

Mortality rates were based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back 3 years for both males and females. For disabled annuitants, mortality rates were based on the RP-2000 Combined Disabled Tables (male and female) with age set back 7 years for males and 3 years for females.

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

*Investments*

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

The pension plan's policy in regard to the allocation of invested plan assets is established and may be amended by the Board. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. The adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 9 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

*Investments (continued)*

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public markets global equity	22.5%	4.8%
Private markets (equity)	15%	6.6%
Private real estate	12%	4.5%
Global fixed income	7.5%	2.4%
U.S. long treasuries	3%	1.4%
TIPS	12%	1.1%
High yield bonds	6%	3.3%
Cash	3%	0.7%
Absolute return	10%	4.9%
Risk parity	10%	3.7%
MLPs/Infrastructure	5%	5.2%
Commodities	8%	3.1%
Financing (LIBOR)	(14%)	1.1%
	<u>100%</u>	

*Discount Rate*

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

*Sensitivity of the School's Proportionate Share of the Net Pension Liability*

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

	1% Decrease <u>6.50%</u>	Current Discount Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
Net pension Liability	<u>\$15,109,000</u>	<u>\$12,258,000</u>	<u>\$9,862,000</u>

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 9 – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

*Pension Plan Fiduciary Net Position*

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

403(b) Plan

Effective October 1, 2014, the School established a 403(b) plan, known as the PSERS Alternative Plan, which is available to all eligible employees. For employees who elect to participate, a mandatory 5% will be withheld from their pay. The School will make a mandatory match of 5%. The School's expense to the Plan for the year ended June 30, 2016 was \$49,344.

**Note 10 – 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three years.

**Note 11 – Contingencies**

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

**Note 12 – Related Party Transactions**

Prepaid Rent

From time to time, predominantly during construction periods, the school has advanced funds to the Foundation as prepaid rent, which has been recorded on the Foundation as deferred revenue. During the year ended June 30, 2014, the School advanced \$848,890 for an additional property. Pursuant to the current agreement, these funds will be amortized at a rate of \$120,000 annually. During the year ended June 30, 2016, \$120,000 of the prepaid rent was amortized as rent expense included in the operating lease amount.

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 12 – Related Party Transactions (continued)**

Due from Related Party

Net amounts due from related party consists of amounts shared for general and administrative expenses paid on behalf of the Foundation by the School.

Other

Certain board members of the School are also board members of First Philadelphia Preparatory Charter School, Memphis Street Academy Charter School, and American Paradigm School boards.

On July 1, 2011, the School entered into a five year contract with American Paradigm Schools that was renewed during the year ended June 30, 2016 and expires June 30, 2021. American Paradigm Schools is a charter management organization that provides support to the School in the following areas; including but not limited to: management support, professional development and human resource management, curriculum services, communications, and public relations. Contract compensation under the previous contract was on a per pupil basis and totaled \$790,125 for the year ended June 30, 2016. Under the current contract renewal, service and licensing fees are calculated at a rate of 7% of all per pupil charter payments and 7% of all other gross receipts less per pupil charter payments.

Frankford Valley Foundation for Literacy II is designated as the foundation for the School. See Note 13 for full details.

**Note 13 – Component Unit (Frankford Valley Foundation for Literacy II)**

*SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Organization and Nature of Activities

Frankford Valley Foundation for Literacy II (the “Foundation”), formed in 2011, is a nonprofit corporation established under the laws of the Commonwealth of Pennsylvania. The Foundation is considered to be a component unit of Tacony Academy Charter School (the “School”), an exempt organization under Section 501(c)(3) of the Internal Revenue Service Code, that operates a public charter school for children in grades kindergarten through 12. As a component unit, the Foundation, although a legally separate entity is in substance, part of the School’s operations. The Foundation has no component units for which it is considered to be financially accountable. The Foundation’s mission is to support the health, welfare and educational interests of the School, and is organized and operated under the provisions of Section 501(c)(3) of the Internal Revenue Service Code.



**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 13 – Component Unit (Frankford Valley Foundation for Literacy II) (continued)**

*SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

Basis of Accounting

The financial statements of the Foundation 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.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2016, the Foundation's net assets were unrestricted and temporarily restricted.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of financial position and statement of cash flows, the Foundation considers all demand deposits at a financial institution to be considered cash equivalents.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for additions and betterments in excess of \$2,500 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.

	<u>Years</u>
Building and Improvements	39
Furniture and Equipment	7

Bond Issuance Costs

Issuance costs incurred by the Foundation in connection with the issuance of revenue bonds, discussed in the note below, are amortized over the 30 year life of the bonds using the straight line basis. Accumulated amortization of bond issuance costs as of the year ended June 30, 2016

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 13 – Component Unit (Frankford Valley Foundation for Literacy II) (continued)**

*SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

Bond Issuance Costs (continued)

was \$65,781. Future amortization of bond issuance costs amount to \$28,192 annually for 2016 through 2043 and \$18,796 in 2044.

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 recorded 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 Statement of Activities.

Tax Status

The Foundation is a Pennsylvania not-for-profit corporation. The Internal Revenue Service has issued a determination letter that the Foundation is a nonprofit organization, as defined under Section 501(c)(3) of the Internal Revenue Code. As such, the Foundation 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. The Foundation would be taxed on unrelated business income which does not fall under Section 501(c)(3) exemption. Management believes that the Foundation has received no unrelated business income and accordingly, there was no income tax on unrelated business income. Tax years which remain subject to examination as of June 30, 2016 are 2013 through 2015.

Advertising Costs

All costs associated with advertising and promotions are recorded as expenditures in the year incurred. Advertising costs for the year ended June 30, 2016 totaled \$-0-.

Net Assets

*Unrestricted Net Assets* – The Foundation 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 Trustees.

*Temporarily Restricted Net Assets* – The Foundation 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

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 13 – Component Unit (Frankford Valley Foundation for Literacy II) (continued)**

*SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

Net Assets (continued)

purpose restriction is accomplished, temporarily restricted net assets are classified to unrestricted net assets and reported in the Statement 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.

*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 prioritizes fair value measurements based on the types of inputs used in the valuation technique. The Foundation 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 the Foundation’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 balance sheet, which approximate fair value due to their short-term, highly liquid nature.

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 13 – Component Unit (Frankford Valley Foundation for Literacy II) (continued)**

*FAIR VALUE MEASUREMENTS (CONTINUED)*

At June 30, 2016, the Foundation's investments, recorded as escrow deposits, consist of cash equivalents. The valuations of these investments according to the fair value hierarchy are all Level 1.

*ESCROW DEPOSITS*

The Foundation maintains various escrow deposit accounts required pursuant to the bond issuance 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 the Foundation holds those funds for specific purposes as discussed below. All escrow deposits are considered temporarily restricted.

Project Funds

The Project Fund Escrow is used to pay costs directly associated with acquisition, construction, or improvement of the new school facilities, or any such capital addition. 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. Subsequent to final reconciliation of construction costs associated with the new school facility, any shortfall will be required to be funded by the Foundation, and any surplus will be transferred first to the Debt Service Reserve Fund, and second to the Debt Service Fund as a credit against future deposits.

Revenue Funds

The Revenue Fund Escrow was set up to directly receive the portion of the School's monthly lease payments, which are used to fund the escrow accounts pursuant to the bond settlement agreement. The receipts are transferred from this account to the other funds as detailed under each respective fund's description.

Debt Service Reserve Funds

The Debt Service Reserve Fund Escrow accounts were funded with \$1,229,650 from the 2013 Series Bonds and \$1,363,444 from the 2014 Series Bonds and are to be used only in the event that the monies in the Debt Service Fund are insufficient to make the necessary principal and interest bond payments on the 2013 Bonds or the 2014 Bonds.

Repair and Replacement Fund

One Repair and Replacement Fund Escrow account is required for the 2014 Bond. The Foundation is required to deposit \$5,000 monthly into this fund commencing in July 2014 until

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 13 – Component Unit (Frankford Valley Foundation for Literacy II) (continued)**

*ESCROW DEPOSITS (CONTINUED)*

Repair and Replacement Fund (continued)

such time that the Repair and Replacement Fund requirement of \$300,000 has been satisfied for each fund. 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.

Rebate Funds

The Rebate Fund Escrow has been established to reimburse the U.S. 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, 2016.

Debt Service Funds

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 to directly receive loan payments each month from the borrower, equal to the basic rentals under the lease agreement, and for payment of interest and principal payments on the bonds. Also, retained in this fund is the interest or other income received on investment of monies 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 Foundation as of June 30, 2016 is as follows:

	<u>Amounts</u>
Project Fund, 2014 Bonds	\$ 104,675
Revenue Fund	237,040
Debt Service Reserve Fund, 2013 Bonds	1,229,650
Debt Service Reserve Fund, 2014 Bond	1,363,444
Repairs and Replacement Fund	180,008
Debt Service Fund	<u>1,844</u>
	<u>\$ 3,116,661</u>

The investments recorded as escrow deposits are presented in the financial statements at the fair value using level 1 fair value measures (quoted prices in active markets). At June 30, 2016, these investments consisted of the following:

Cash Equivalents:

Money Market Funds	<u>\$3,116,661</u>
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**TACONY ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 13 – Component Unit (Frankford Valley Foundation for Literacy II) (continued)**

*CAPITAL ASSETS*

For the year ended June 30, 2016, changes in property and equipment were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Land	\$ 1,380,712	\$ -0-	\$ -0-	\$ 1,380,712
Construction in progress	7,430,960	-0-	(7,430,960)	-0-
Buildings and improvements	<u>13,953,347</u>	<u>13,562,422</u>	<u>-0-</u>	<u>27,515,769</u>
Total	22,765,019	13,562,422	(7,430,960)	28,896,481
Accumulated depreciation	<u>(536,667)</u>	<u>(633,084)</u>	<u>-0-</u>	<u>(1,169,751)</u>
	<u>\$ 22,228,352</u>	<u>\$ 12,929,338</u>	<u>(\$ 7,430,960)</u>	<u>\$ 27,726,730</u>

Depreciation expense for the year ended June 30, 2016 was \$633,084.

*DEFERRED REVENUE*

The Foundation entered into a lease agreement with the School. From time to time, predominately during construction periods, the School has advanced funds to the Foundation as prepaid rent, which has been recorded at deferred revenue. Accordingly, these payments are recorded as an asset to the School and a liability of the Foundation. During the year ended June 30, 2014, the School advanced \$848,890 for an additional property. Deferred revenue as of June 30, 2016 was \$608,890. Pursuant to the current agreement, these funds will be credited to income at a rate of \$120,000 annually. This annual amortization of the prepaid rent is in addition to the future minimum rentals. Future amortization of deferred revenue is as follows:

<u>Years ending June 30,</u>	<u>Amounts</u>
2017	\$ 120,000
2018	120,000
2019	120,000
2020	120,000
2021	120,000
2022	<u>8,890</u>
	<u>\$ 608,890</u>

*BONDS PAYABLE*

During the fiscal year ended June, 30, 2014, the Foundation issued \$14,820,000 in Revenue Bonds (Series A-1 of 2013) and \$180,000 Taxable Revenue Bonds (Series A-2 of 2013). The 2013 Series A-1 Revenue Bonds will mature on June 15<sup>th</sup> in the following principal amounts, percentages and years: \$1,460,000 at 6.250% in 2023, \$4,120,000 at 6.70% in 2033 and

**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 13 – Component Unit (Frankford Valley Foundation for Literacy II) (continued)**

*BONDS PAYABLE (CONTINUED)*

\$9,240,000 at 7.0% in 2043. The 2013 Series A-2 Taxable Revenue Bonds matured on December 15 at an interest rate of 6.250% in 2015. Both series of bonds are subject to mandatory sinking fund redemption on June 15 of each respective year. The bonds were issued for the expansion and renovation of the school facility, for use by the School.

On February 20, 2014, the Foundation issued \$16,300,000 of 2014 Series Revenue Bonds. The 2014 Series Revenue Bonds will mature on June 15 in the following principal amounts, percentages and years: \$1,855,000 at 6.125% in 2023, \$4,375,000 at 6.875% in 2033 and \$10,070,000 at 7.375% in 2043. The bonds are subject to mandatory sinking fund redemption on June 15 of each respective year. The bonds were issued to acquire a property and for the construction, renovation, furnishing and equipping of the High School facility.

A summary of changes in long-term debt obligations as of June 30, 2016 are as follows:

	Beginning	Additions	Reductions	Ending	Due in One Year
2013 Revenue Bonds	\$ 14,820,000	\$ -0-	\$ -0-	\$ 14,820,000	\$ -0-
2013 Taxable Revenue Bonds	120,000	-0-	(120,000)	-0-	-0-
2014 Bonds	<u>16,300,000</u>	<u>-0-</u>	<u>(150,000)</u>	<u>16,150,000</u>	<u>170,000</u>
	<u>\$ 31,240,000</u>	<u>\$ -0-</u>	<u>\$ (270,000)</u>	<u>\$ 30,970,000</u>	<u>\$ 170,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 170,000	\$ 2,164,025	\$ 2,334,025
2018	400,000	2,153,613	2,553,613
2019	460,000	2,128,869	2,588,869
2020	485,000	2,100,413	2,585,413
2021	515,000	2,070,413	2,585,413
2022-2026	3,130,000	9,818,306	12,948,306
2027-2031	4,325,000	8,611,050	12,936,050
2032-2036	6,040,000	6,907,095	12,947,095
2037-2041	8,525,000	4,415,964	12,940,964
2042-2043	<u>6,920,000</u>	<u>845,619</u>	<u>7,765,619</u>
	<u>\$30,970,000</u>	<u>\$41,215,367</u>	<u>\$72,185,367</u>

**TACONY ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**Note 13 – Component Unit (Frankford Valley Foundation for Literacy II) (continued)**

*SUPPORT AND REVENUE*

The Foundation receives substantially all of its revenue from rental activities which are available for payment of debt service and payment of operating costs of the Foundation. Fundraising activities are also generally available for unrestricted use unless specifically restricted by the donor. The Foundation has not received any contributions from fundraising with donor imposed restrictions that would result in temporarily restricted net assets. A certain portion of the rental payments that have been set aside for the payment of debt service are reported as temporarily restricted.

*RELATED PARTY TRANSACTIONS*

The Foundation’s goal is to financially support the School through fundraising and charitable gifts. The School guaranteed certain debt of the Foundation.

The Foundation leases 100% of its rental facility to the School under a long-term operating lease. Rent under the lease and for the year ended June 30, 2016, was \$2,724,316, which includes \$120,000 of amortized prepaid rent as discussed above. The balance of deferred revenue was \$608,890 at June 30, 2016. The lease agreement includes a provision that minimum rentals may be increased as needed based on debt service requirements of the Foundation, which are typically in excess of the minimum rental amounts. Approximate future minimum rentals are as follows:

<u>Years ending June 30,</u>	
2017	\$ 2,334,025
2018	2,553,613
2019	2,588,869
2020	2,585,413
2021	2,585,413
Thereafter	<u>59,538,014</u>
	<u>\$ 72,185,347</u>

*CONCENTRATION OF CREDIT RISK*

The Foundation maintains its cash and cash equivalents at two financial institutions, which, at times, may exceed federally insured limits. Cash deposit accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At June 30, 2016, the Foundation had no cash balances in excess of FDIC insured limits.



**TACONY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**Note 14 – Subsequent Events**

The School has evaluated subsequent events through December 8, 2016, the date these financial statements were available to be issued.

**TACONY ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Revenues	Original and Final Budget	Actual	Actual Greater (Less) Than Budget
Local educational agencies	\$ 11,644,089	\$ 11,221,577	\$ (422,512)
Federal funds	867,816	1,123,265	255,449
State funds	139,149	239,352	100,203
Other sources	-0-	65,106	65,106
	<hr/>	<hr/>	<hr/>
Total revenues	12,651,054	12,649,300	(1,754)
	<hr/>	<hr/>	<hr/>
Expenditures			
Instruction	5,731,296	5,524,980	(206,316)
Staff support services	337,761	383,342	45,581
Instructional support services	295,202	212,463	(82,739)
Administrative support services	1,920,411	2,319,342	398,931
Nursing services support	110,649	131,357	20,708
Business support services	309,106	289,345	(19,761)
Student activities	50,047	111,958	61,911
Non-instructional services	205,712	338,241	132,529
Community service	-0-	86,726	86,726
Facility services	3,685,414	3,683,675	(1,739)
Capital outlays	-0-	146,755	146,755
	<hr/>	<hr/>	<hr/>
Total expenditures	12,645,598	13,228,184	582,586
	<hr/>	<hr/>	<hr/>
Net change in fund balance, before transfers	\$ 5,456	\$ (578,884)	\$ (584,340)

**TACONY ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**AS OF JUNE 30, 2016**  
**FOR THE LAST TWO FISCAL YEARS**

	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.0283%	0.0325%
Proportionate share of the net pension liability	\$ 12,258,000	\$ 12,863,000
Covered-employee payroll	\$ 3,645,200	\$ 4,145,262
Proportionate share of the net pension liability as a percentage of covered-employee payroll	336%	310%
Plan's fiduciary net position	\$51,585,521,000	\$52,980,115,000
Plan fiduciary net position as a percentage of the total pension liability	54.36%	57.24%

**TACONY ACADEMY CHARTER SCHOOL  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
AS OF JUNE 30, 2016  
FOR THE LAST TWO FISCAL YEARS**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 731,000	\$ 647,000
Contributions in relation to the contractually determined contribution	<u>731,000</u>	<u>647,000</u>
Contribution (excess) deficiency	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered-employee payroll	\$3,645,200	\$4,145,262
Contributions as a percentage of covered-employee payroll	20.05%	15.61%

**TACONY ACADEMY CHARTER SCHOOL  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

Changes in Benefit Terms

None

Changes in Assumptions

None

Method and Assumptions used in calculations of actuarially determined contributions

The actuarially determined contributions are calculated as of the June 30 preceding the fiscal year in which contributions are made. That is, the contribution calculated as of the June 30, 2014 actuarial valuation will be made during the fiscal year ended June 30, 2016. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

- Investment return – 7.50%, includes inflation of 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%
- Benefit payments – no postretirement benefit increases assumed in the future
- Multiple decrement tables – mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary

10-year Reporting Requirements

The preceding required supplementary schedules, related to pensions, are intended to show information for 10 years. Additional years will be displayed as they become available.

**TACONY ACADEMY CHARTER SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-through Entity Identification Number	Grant Period	Total Received for the Year	Accrued (Deferred) Revenue at July 1, 2015	Revenue Recognized	Expenditures	Accrued (Deferred) Revenue at June 30, 2016
<b>U.S. Department of Education</b>								
<b>Pass-through programs from:</b>								
<b>Pennsylvania Department of Education</b>								
Title I - Improving Basic Programs	84.010	013-161082	10/1/14 - 9/30/15	\$ 309,794	\$ 171,911	\$ 137,883	\$ 137,883	\$ -0-
Title I - Improving Basic Programs	84.010	013-161082	10/1/15 - 9/30/16	645,762	-0-	739,325	739,325	93,563
Title II - Improving Teacher Quality	84.367	013-161082	10/1/13 - 9/30/14	883	883	-0-	-0-	-0-
Title II - Improving Teacher Quality	84.367	013-161082	10/1/14 - 9/30/15	11,403	11,403	-0-	-0-	-0-
Title II - Improving Teacher Quality	84.367	013-161082	10/1/15 - 9/30/16	28,493	-0-	28,493	28,493	-0-
<b>School District of Philadelphia</b>								
IDEA Part B	84.027	N/A	7/1/15 - 6/30/16	217,564	-0-	217,564	217,564	-0-
Total U.S. Department of Education				1,213,899	184,197	1,123,265	1,123,265	93,563
<b>Child Nutrition Cluster</b>								
<b>U.S. Department of Agriculture</b>								
<b>Pass-through programs from:</b>								
<b>Pennsylvania Department of Education</b>								
School Breakfast Program	10.553	511	7/1/15 - 6/30/16	201,256	42,488	192,415	192,415	33,647
National School Lunch Program	10.555	510	7/1/15 - 6/30/16	325,729	68,933	303,239	303,239	46,443
National School Lunch Program - Commodities	10.555	510	7/1/15 - 6/30/16	31,937	-0-	31,937	31,937	-0-
Total U.S. Department of Agriculture				558,922	111,421	527,591	527,591	80,090
Total Child Nutrition Cluster				558,922	111,421	527,591	527,591	80,090
Total Expenditures of Federal Awards				\$ 1,772,821	\$ 295,618	\$ 1,650,856	\$ 1,650,856	\$ 173,653 *

\* Amount is made up of the \$179,439 receivable and \$5,784 change in deferred revenue

See accompanying notes to schedule of expenditures of federal awards.

**TACONY ACADEMY CHARTER SCHOOL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016**

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the balance sheet, revenues, expenditures, or changes in fund balances of governmental funds. The financial activity for the aforementioned awards is reported in the School's statement of revenues, expenditures, and changes in fund balances of governmental funds.

**Note B – Summary of Significant Accounting Policies**

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. The School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

# HAEFELE FLANAGAN

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Tacony Academy Charter School  
Philadelphia, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component unit, and each major fund of **TACONY ACADEMY CHARTER SCHOOL** (a nonprofit organization), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise **TACONY ACADEMY CHARTER SCHOOL's** basic financial statements, and have issued our report thereon dated December 8, 2016. The financial statements of Frankford Valley Foundation for Literacy II were not audited in accordance with Government Auditing Standards.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **TACONY ACADEMY CHARTER SCHOOL's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **TACONY ACADEMY CHARTER SCHOOL's** internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **TACONY ACADEMY CHARTER SCHOOL**'s financial statements are free from 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.

*Haebel, Flanagan & Co., P.C.*

Maple Shade, New Jersey

December 8, 2016

# HAEFELE FLANAGAN

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees  
Tacony Academy Charter School  
Philadelphia, Pennsylvania

### Report on Compliance for Each Major Federal Program

We have audited **TACONY ACADEMY CHARTER SCHOOL**'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of **TACONY ACADEMY CHARTER SCHOOL**'s major federal programs for the year ended June 30, 2016. **TACONY ACADEMY CHARTER SCHOOL**'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### *Management's Responsibility*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of **TACONY ACADEMY CHARTER SCHOOL**'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **TACONY ACADEMY CHARTER SCHOOL**'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **TACONY ACADEMY CHARTER SCHOOL**'s compliance.

### *Opinion on Each Major Federal Program*

In our opinion, **TACONY ACADEMY CHARTER SCHOOL** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **Report on Internal Control over Compliance**

Management of **TACONY ACADEMY CHARTER SCHOOL** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **TACONY ACADEMY CHARTER SCHOOL**'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **TACONY ACADEMY CHARTER SCHOOL**'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Haefele, Flamagan & Co., P.C.*

Maple Shade, New Jersey

December 8, 2016

**TACONY ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2016**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The Auditors' Report expresses an unmodified opinion on whether the financial statements of **TACONY ACADEMY CHARTER SCHOOL** were prepared in accordance with GAAP.
2. No material weaknesses in internal control were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of **TACONY ACADEMY CHARTER SCHOOL** were disclosed during the audit.
4. No material weaknesses in internal control over major federal programs were disclosed during the audit.
5. The Auditors' Report issued on compliance for the major federal programs for **TACONY ACADEMY CHARTER SCHOOL** expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.
7. The program tested as a major program was:
  - Child Nutrition Cluster CFDA # 10.553 and 10.555
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. **TACONY ACADEMY CHARTER SCHOOL** was determined to be a low risk auditee.

**TACONY ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**JUNE 30, 2016**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

None.