



---

# **ACADEMY OF DOVER CHARTER SCHOOL**

**(A Component Unit of the State of Delaware)**

**DOVER, DELAWARE**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018**

---

ACADEMY OF DOVER CHARTER SCHOOL  
(A Component Unit of the State of Delaware)

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
Statements of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheets - Governmental Fund	6
Reconciliation of Balance Sheet - Governmental Fund to Statement of Net Position	7
Statements of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	8
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund to Statement of Activities	9
Notes to Financial Statements	10 - 27
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	28
Schedule of the School's Proportionate Share of the Net Pension Liability	29
Schedule of School Pension Contributions	30
Schedule of the School's Proportionate Share of the Net OPEB Liability	31
Schedule of School OPEB Contributions	32

ACADEMY OF DOVER CHARTER SCHOOL  
(A Component Unit of the State of Delaware)

TABLE OF CONTENTS

	<u>PAGE</u>
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - General Fund	33
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund	34
Schedule of Expenditures by Natural Classification - General Fund	35
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36 - 37
Schedule of Findings and Recommendations	38

## INDEPENDENT AUDITOR'S REPORT

September 28, 2018

Board of Directors  
Academy of Dover Charter School  
Dover, Delaware

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Academy of Dover Charter School ("the School"), Dover, Delaware (a component unit of the State of Delaware), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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.

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.

Board of Directors  
Academy of Dover Charter School

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 and the major fund of the Academy of Dover Charter School as of June 30, 2018, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Emphasis of a Matter

As discussed in Note A to the financial statements, the Academy of Dover Charter School has adopted the requirements of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." This statement modifies the accounting for the School's other postemployment benefits. As a result, the beginning governmental activities net position has been restated. Our opinion is not modified with respect to this matter.

#### Report on Summarized Comparative Information

We have previously audited the Academy of Dover Charter School's 2017 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and the major fund in our report dated September 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 budgetary comparison information on page 28, and the schedule of the School's proportionate share of the net pension liability, schedule of School pension contributions, schedule of the School's proportionate share of the net OPEB liability, and schedule of OPEB contributions on pages 29 through 32 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.

Board of Directors  
Academy of Dover Charter School

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - general fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - general fund are the responsibility of management and were 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 combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - general fund are 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 September 28, 2018, on our consideration of the 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 the School's internal control over financial reporting and compliance.

  
BARBACANE, THORNTON & COMPANY LLP

## **BASIC FINANCIAL STATEMENTS**

**ACADEMY OF DOVER CHARTER SCHOOL  
STATEMENTS OF NET POSITION  
JUNE 30, 2018 AND 2017**

	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS:</b>		
Cash and pooled cash	\$ 254,653	\$ 259,591
Due from other governments	28,138	45,496
Total Current Assets	282,791	305,087
<b>NONCURRENT ASSETS:</b>		
Capital assets, net of depreciation	65,477	79,114
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred pension contributions	112,249	110,385
Deferred pension expense	298,856	432,200
Deferred OPEB contributions	118,787	137,103
Total Deferred Outflows of Resources	529,892	679,688
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 878,160</b>	<b>\$ 1,063,889</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 10,485	\$ 22,814
Accrued salaries and related costs	288,855	263,635
Notes payable	50,000	50,000
Total Current Liabilities	349,340	336,449
<b>NONCURRENT LIABILITIES:</b>		
Notes payable	-	50,000
Net pension liability	867,114	1,005,614
Net OPEB liability	4,771,392	5,874,366
Total Noncurrent Liabilities	5,638,506	6,929,980
<b>TOTAL LIABILITIES</b>	<b>5,987,846</b>	<b>7,266,429</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred pension expense	95,697	49,205
Deferred OPEB expense	1,086,609	-
Total Deferred Inflows of Resources	1,182,306	49,205
<b>NET POSITION (DEFICIT):</b>		
Investment in capital assets	65,477	79,114
Unrestricted (deficit)	(6,357,469)	(6,330,859)
<b>TOTAL NET DEFICIT</b>	<b>(6,291,992)</b>	<b>(6,251,745)</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT</b>	<b>\$ 878,160</b>	<b>\$ 1,063,889</b>

The accompanying notes are an integral part of these financial statements.



**ACADEMY OF DOVER CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018  
(With Summarized Comparative Data for the Year Ended June 30, 2017)**

	Program Revenues			Net (Expense) Revenues and Changes in Net Deficit Totals
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
	Expenses	2018	2017	
<b>GOVERNMENTAL ACTIVITIES:</b>				
Instructional services	\$ (1,777,987)	\$ 266,195	\$ -	\$ (1,511,792)
Support services:				
Operation and maintenance of facilities	(794,261)	-	-	(794,261)
Transportation	(210,000)	200,715	-	(9,285)
School lunch services	(233,984)	230,092	-	(3,892)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ (3,016,232)</u></b>	<b><u>\$ 697,002</u></b>	<b><u>\$ -</u></b>	<b><u>(2,319,230)</u></b>
<b>GENERAL REVENUES:</b>				
Charges to school districts		352,850		342,427
State aid not restricted to specific purposes		1,915,421		1,862,503
Earnings on cash and investments		1,489		4,453
Miscellaneous revenues		9,223		47,125
<b>TOTAL GENERAL REVENUES</b>		<b><u>2,278,983</u></b>		<b><u>2,256,508</u></b>
<b>CHANGE IN NET DEFICIT</b>		<b>(40,247)</b>		<b>(198,054)</b>
<b>NET DEFICIT, BEGINNING OF YEAR, RESTATED</b>		<b><u>(6,251,745)</u></b>		<b><u>(6,053,691)</u></b>
<b>NET DEFICIT, END OF YEAR</b>		<b><u>\$ (6,291,992)</u></b>		<b><u>\$ (6,251,745)</u></b>

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL  
BALANCE SHEETS - GOVERNMENTAL FUND  
JUNE 30, 2018 AND 2017**

	2018	2017
<b>ASSETS</b>		
Cash and pooled cash	\$ 254,653	\$ 259,591
Due from other governments	28,138	45,496
<b>TOTAL ASSETS</b>	<b>\$ 282,791</b>	<b>\$ 305,087</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 10,485	\$ 22,814
Accrued salaries and related costs	288,855	263,635
Total Liabilities	299,340	286,449
<b>FUND BALANCE:</b>		
Unassigned (Deficit)	(16,549)	18,638
Total Fund Balance (Deficit)	(16,549)	18,638
<b>TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)</b>	<b>\$ 282,791</b>	<b>\$ 305,087</b>

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND TO  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

TOTAL FUND BALANCE (DEFICIT) - GOVERNMENTAL FUND \$ (16,549)

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

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net position.

65,477

Long-term liabilities applicable to the governmental activities are not due and payable in the current year and, accordingly, are not reported as fund liabilities.

Notes payable	\$ (50,000)	
Net pension liability	(867,114)	
Net OPEB liability	<u>(4,771,392)</u>	(5,688,506)

Deferred inflows and outflows related to the School's net pension liability are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined proportion of the School's amount of the total pension liability, and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows:		
Pension contributions	112,249	
Pension expenses	298,856	
Deferred inflows:		
Pension expenses	<u>(95,697)</u>	<u>315,408</u>

Deferred inflows and outflows related to the School's net OPEB liability are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined proportion of the School's amount of the total OPEB liability, and OPEB contributions made after the measurement date of the net OPEB liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows:		
OPEB contributions	118,787	
Deferred inflows:		
OPEB expenses	<u>(1,086,609)</u>	<u>(967,822)</u>

TOTAL NET DEFICIT - GOVERNMENTAL ACTIVITIES \$ (6,291,992)

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL  
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
REVENUES		
Charges to school districts	\$ 352,850	\$ 342,427
State aid	2,116,136	2,063,218
Federal aid	496,287	539,764
Earnings on cash and investments	1,489	4,453
School lunch services - charges for services	-	177
Miscellaneous	9,223	47,125
TOTAL REVENUES	<u>2,975,985</u>	<u>2,997,164</u>
EXPENDITURES		
Current:		
Instruction	1,725,285	2,145,671
Operation and maintenance of facilities	788,362	548,124
Transportation	210,000	210,000
School lunch services	233,984	226,702
Capital outlays:		
Equipment	3,541	4,593
Debt service:		
Principal	50,000	50,000
TOTAL EXPENDITURES	<u>3,011,172</u>	<u>3,185,090</u>
NET CHANGE IN FUND BALANCE	(35,187)	(187,926)
FUND BALANCE, BEGINNING OF YEAR	<u>18,638</u>	<u>206,564</u>
FUND BALANCE (DEFICIT) , END OF YEAR	<u>\$ (16,549)</u>	<u>\$ 18,638</u>

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

NET CHANGE IN FUND BALANCE (DEFICIT) - GOVERNMENTAL FUND \$ (35,187)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$25,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$13,637) exceeded capital outlays (\$0). (13,637)

Repayment of the principal of long-term debt consumes the current financial resources of the governmental funds but does not have any affect on net position. 50,000

Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the School's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (39,472)

OPEB expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the School's proportionate share of the expenses of the cost-sharing pension plan, whereas OPEB expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (1,951)

CHANGE IN NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES \$ (40,247)

The accompanying notes are an integral part of these financial statements.

## ACADEMY OF DOVER CHARTER SCHOOL

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### Reporting Entity

The School, which opened in September 2003, was established to provide a unique learning environment to students. The School is a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

#### Entity-wide and Fund Financial Statements

The entity-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to students who purchase, use, or directly benefit from goods and services provided; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenues not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for the governmental fund.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

**Entity-wide financial statements** are reported 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 related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**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 both 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

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and capital leases are recorded only when payment is due.

The School reports only one fund, which is the general fund (a governmental fund type).

Capital Assets

Capital assets, which include furniture and equipment, are reported in the entity-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated lives of the related assets. The School generally uses the following estimated useful lives:

Furniture and equipment	3 - 10 years
Leasehold improvements	10 - 20 years

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The School reports deferred pension and OPEB contributions resulting from pension and OPEB contributions subsequent to the measurement date of the net pension and OPEB liabilities and certain other items which represent differences related to changes in the net pension and OPEB liabilities which will be amortized over future periods. In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents a source of net position that applies to future periods. The School reports certain items which represent differences related to changes in the net pension and OPEB liabilities which will be amortized over future periods.

Compensated Absences

**Vacation** – Employees are not paid for unused vacation upon resignation or termination, unless otherwise stated in the employee contract. Twelve-month salaried employees are entitled up to 12 days of vacation each year.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Sick and Personal Leave** – Employees are not paid for unused sick or personal leave upon resignation or termination. Sick leave allowances are as follows: 10 days for 10-month salaried employees and 12 days for 12-month salaried employees. Three sick days can be taken as personal days for both 10-month and 12-month salaried employees.

Earned unused sick leave may be transferred to another state agency if the employee remains a state employee or is later rehired as a state employee. Sick time does not accrue while an employee is on leave of absence, unless otherwise required by law. At the time of separation, the state will pay out any compensated absences, within its guidelines, to the employee.

Fund Balance

Fund balance will be displayed in the following classification (if applicable) depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

*Nonspendable* – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

*Committed* – amounts that can be used only for specific purposes determined by formal action of the Board of Directors. The Board is the highest level of decision-making authority for the School. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Principal may assign amounts for specific purposes.

*Unassigned* – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the School considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board or Principal has provided otherwise in its commitment or assignment actions.



ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Any remaining portions of net position are reflected as unrestricted. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and then unrestricted resources as they are needed.

Use of Estimates in the Preparation of Financial Statements

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 those estimates.

Income Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. The School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The School did not engage in any unrelated business activities during the fiscal year. Management believes more likely than not that its tax-exempt status and tax positions will be sustained if examined by authorities.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and, therefore, should be read in conjunction with the School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Implementation of GASB Statement

During the year ended June 30, 2018, the School implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, with the objective of improving the accounting and financial reporting of state and local governments for other postemployment benefits. It requires that state and local governments recognize and record the actuarially determined net other postemployment benefit liability, or, for multi-employer cost sharing plans, the entity's share of the net other postemployment benefit liability, in the entity's financial statements.

NOTE B CASH AND POOLED CASH

At June 30, 2018, the School had a cash equivalents balance of \$254,653. Of that amount, \$254,653 was part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

NOTE C INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units represent receivables for revenues earned by the School. At June 30, intergovernmental receivables are as follows:

<u>Description</u>	
Passed through the State of Delaware:	
Federal government	<u>\$ 28,138</u>
Total Intergovernmental Receivables	<u>\$ 28,138</u>

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE D CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2018 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
General capital assets being depreciated:				
Furniture and equipment	\$ 636,550	\$ -	\$ -	\$ 636,550
Leasehold improvements	90,389	-	-	90,389
Accumulated depreciation	<u>(647,825)</u>	<u>(13,637)</u>	<u>-</u>	<u>(661,462)</u>
Total capital assets being depreciated, net	<u>\$ 79,114</u>	<u>\$ (13,637)</u>	<u>\$ -</u>	<u>\$ 65,477</u>

For the year ended June 30, 2018, depreciation expense of \$7,738 and \$5,899 was included in instructional services and operation and maintenance of facilities, respectively.

NOTE E NOTES PAYABLE

The School signed three notes in fiscal year 2005 with its then management company, Mosaica Education, Inc. ("MEI"). The first note, representing management fees of \$156,856 for fiscal year 2004, bore interest at the rate of six percent. Monthly payments of \$4,772 were scheduled to begin July 1, 2006, with final payment due May 1, 2009. The second, representing management fees of \$185,067 for fiscal year 2005, bore interest at the rate of six percent. Monthly payments of \$5,630 were scheduled to begin July 1, 2006, with final payment due May 1, 2009. The third note, representing repayment of amounts loaned to the School and a buyback of supplies of \$168,468, was a noninterest-bearing note. Monthly payments of \$4,680 were scheduled to begin July 1, 2006, with final payment due May 1, 2009.

On February 1, 2010, the Court of Chancery of the State of Delaware ordered the confirmation of the May 9, 2008 American Arbitration Association's Finding and Award of Arbitrator issued in favor of MEI, as described in Note F. The unpaid balance, including accrued interest, at that point was \$971,807. On June 2, 2015, a Memorandum of Understanding ("MOU") was reached which forgave \$321,807 of the outstanding amount and called for scheduled payments of the remaining amount of \$650,000. (See Note F for terms and maturity.)

Notes payable activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Notes payable	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE E NOTES PAYABLE (cont'd)

The future debt payments are as follows:

Year Ending June 30,

2019	<u>\$ 50,000</u>
Total	<u>\$ 50,000</u>

NOTE F TERMINATION OF MANAGEMENT CONTRACT

The School terminated its contract with MEI on June 19, 2006. MEI commenced arbitration, seeking damages for wrongful termination and for payment of the School's promissory notes. After a trial and post-hearing submissions, the Arbitrator awarded \$971,807 plus interest. The attorneys for the School had advised the School and the Delaware Department of Education that Delaware law prohibits the payment of any amount to MEI, notwithstanding the Arbitrator's award and any judgment entered thereon, except to the extent of any surplus remaining at the end of the year in which all educational expenses have been met. On July 1, 2009, the Court of Chancery confirmed the arbitration award, advising the School that its position could be asserted at another time.

On June 2, 2015, the School signed a MOU with MEI for the purposes of settlement of the Judgement and to satisfy all monies owed, inclusive of interest on the Judgement. The MOU is in the amount of \$650,000, and the parties agreed to a payment schedule calling for \$200,000 to be submitted within 24 hours of signing the MOU; \$150,000 due no later than July 3, 2015; \$150,000 due no later than July 31, 2016; and the final \$150,000 due in three installments of \$50,000, each due no later than July 31, 2017, 2018, and 2019.

NOTE G FUND BALANCE

As of June 30, 2018, fund balance is composed of the following:

General fund - unassigned deficit \$ (16,549)

It is anticipated that the above deficit in the general fund will be eliminated through revenues exceeding expenditures in future years.

NOTE H OPERATING LEASES

The School leases its facilities under an operating leasing arrangement expiring November 30, 2020. The facility lease started December 1, 2010. The base year rental is \$514,896, inclusive of

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE H OPERATING LEASES (cont'd)

maintenance charges. The rent and maintenance fees will increase beginning December 1, 2013 and each year thereafter. The lease contains a purchase option that may be exercised by the School by notifying the lessor 90 days prior to the proposed closing date.

Rent expense was \$565,195 for the year ended June 30, 2018, all of which was included in operation and maintenance of facilities.

The future minimum lease obligations are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 542,776
2020	553,887
2021	565,195
2022	576,590
2023	588,123
2024	599,884
2025	611,880
2026	624,116
2027	<u>262,190</u>
Total	<u>\$ 4,924,641</u>

NOTE I SERVICE AGREEMENT

On June 8, 2011, the School entered into an agreement with the Innovative School Development Corporation to provide business and project management services. On June 7, 2011, the School entered into an agreement with the Innovative School Development Corporation to provide charter renewal support services. Total expenses for the year ended June 30, 2018 were \$11,725.

NOTE J PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan ("the Plan"), which is a cost-sharing, multiple-employer defined benefit public employees' retirement system ("the State PERS") defined by the Delaware Code.

The State of Delaware General Assembly is responsible for setting benefits and contributions, and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees ("the Board").

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

The following are brief descriptions of the Plan in effect as of June 30, 2018. For a more complete description, please refer to the Delaware Employees' Pension Plan Comprehensive Annual Financial Report. Separately issued financial statements for the Plan may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904; by calling 1-800-722-7300; or by visiting the PERS website at [www.delawarepensions.com](http://www.delawarepensions.com).

Plan Description and Eligibility

The State Employees' Pension Plan covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

There are two tiers within this plan: 1) employees hired prior to January 1, 2012, and 2) employees hired on or after January 1, 2012.

Benefits Provided

*Service Benefits*

Final average monthly compensation (employees hired on or after January 1, 2012 may not include overtime in pension compensation) multiplied by 2.0 percent and multiplied by years of credited service prior to January 1, 1997, plus final average monthly compensation multiplied by 1.85 percent and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three periods of twelve consecutive months of compensation.

*Vesting*

Employees hired before January 1, 2012 vest in the plan after five years of credited service. Employees hired on or after January 1, 2012 vest in the plan after ten years of credited service.

*Retirement*

Employees hired before January 1, 2012 may retire at age 62 with five years of credited service; at age 60 with 15 years of credited service; or after 30 years of credited service at any age. Employees hired on or after January 1, 2012 may retire at age 65 with at least 10 years of credited service; at age 60 with 20 years of credited service; or after 30 years of credited service at any age.

*Disability Benefits*

Disability benefits for those employees hired before January 1, 2012 are offered using the same calculations as the Service Benefits described above. Employees in this program must have five

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

years of credited service. In lieu of disability pension benefits, over 90 percent of the members of this plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Employees hired on or after January 1, 2012 are also included in the Disability Insurance Program.

*Survivor and Burial Benefits*

In the event of the death of a member of the Plan, the eligible survivor receives 50 percent of the benefits received under the pension (or 75 percent with a three percent reduction of the benefit). If the employee is an active member of the Plan with at least five years of credited service, the eligible survivor receives 75 percent of the benefit the active employee would have received at age 62.

Burial benefits are established at \$7,000 per plan member.

Contributions

*Member Contributions*

Employees hired before January 1, 2012 contribute three percent of earnings in excess of \$6,000. Employees hired on or after January 1, 2012 contribute five percent of earnings in excess of \$6,000.

*Employer Contributions*

Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2018, the rate of the employer contribution was 11.52 percent of covered payroll. The School's contribution to PERS for the years ended June 30, 2018 was \$112,249.

*PRI Contribution*

All reporting units participating in the State PERS make contributions to a PRI fund which accumulates resources to fund ad hoc post-retirement increases granted by the General Assembly. The increases are funded over a five-year period from the PRI fund. The allocation of the contribution from the PRI fund to the Pension Trust is a reduction of the net pension liability of each participating employer.

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2018, the School reported a liability of \$867,114 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2016 to June 30, 2017. The School's proportion of the

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

net pension liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2017, the School's proportion was 0.0591 percent, which was a decrease of 0.0076 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized a pension expense of \$130,172. At June 30, 2018, 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>
Net difference between projected and actual investment earnings	\$ 101,369	\$ -
Changes in assumptions	170,377	
Changes in proportions	17,100	80,409
Difference between actual and expected experience	10,010	15,288
Contributions subsequent to the date of measurement	<u>112,249</u>	<u>-</u>
	<u>\$ 411,105</u>	<u>\$ 95,697</u>

An amount of \$112,249 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

Year Ending June 30,

2018	\$ 21,960
2019	108,487
2020	73,670
2021	(11,168)
2022	<u>10,210</u>
	<u>\$ 203,159</u>

Actuarial Assumptions

The total pension liability as of the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, and update procedures were used to roll forward the



ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions, applied to all periods:

- Investment return – 7.0 percent, including inflation of 2.5 percent
- Salary increases – 2.5 to 11.5 percent, including inflation of 2.5 percent
- Cost-of-living adjustments – ad hoc

The total pension liabilities are measured based on assumptions pertaining to interest rates, inflation rates, and employee demographic behavior in future years. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the actual experience deviates, the larger the impact on future financial statements.

Mortality rates were based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees, and an adjusted version on the MP-2015 mortality improvement scale on a fully generational basis.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (“ad hoc COLAs”), as they are not substantively automatic. The primary considerations relevant to making this determination include the historical patterns of granting the changes and the consistency in the amounts of the changes.

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 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 an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Asset Allocation</u>
Domestic equity	5.7%	33.5%
International equity	5.7%	13.7%
Fixed income	2.0%	26.6%
Alternative investments	7.8%	22.7%
Cash and equivalents	0.0%	3.5%

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

Discount Rate

The discount used to measure the total pension liability was 7.0 percent. 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 rates determined by the Board of Pension Trustees, as 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 to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate.

	1% Decrease 6.0%	Current Rate Discount Rate 7.0%	1% Increase 8.0%
School's proportionate share of the net pension liability	\$ 1,561,020	\$ 867,114	\$ 278,857

Pension Plan Fiduciary Net Position

Detailed information about PERS' fiduciary net position is available in PERS Comprehensive Annual Financial Report, which can be found on the Plan's website at [www.delawarepensions.com](http://www.delawarepensions.com).

NOTE K OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Other Postemployment Benefit Fund Trust ("the Plan"), which is a cost-sharing, multiple-employer defined benefit plan defined by the Delaware Code.

The State of Delaware General Assembly is responsible for setting benefits and contributions, and amending plan provisions; administrative rules and regulations are adopted and maintained by the DPERS Board of Pension Trustees, which acts as the Board of Trustees ("the Board") for the Plan and is responsible for the financial management of the Plan.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE K OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

The following are brief descriptions of the Plan in effect as of June 30, 2018. For a more complete description, please refer to the Delaware Public Employees' Retirement System Comprehensive Annual Financial Report. Separately issued financial statements for the Plan may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904; by calling 1-800-722-7300; or by visiting the PERS website at [www.delawarepensions.com](http://www.delawarepensions.com).

Plan Description and Eligibility

The State of Delaware Employees' Other Postemployment Benefit ("OPEB") Fund Trust is a cost-sharing multiple employer plan that covers all employees of the State that are eligible to participate in the defined benefit pension plan, including employees of other affiliated entities.

Benefits Provided

The Plan provides medical coverage to pensioners and their eligible dependents. The participant's cost of Plan benefits is variable based on years of service. Pensioners who retire after July 1, 2012 and who become eligible for Medicare will pay an additional five percent of the Medicare Supplement offered by the State. Surviving spouses are eligible for coverage after a retiree's death.

Contributions

*Member Contributions*

By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of plan members are established and may not be amended by the State Legislature.

*Employer Contributions*

Participating employers fund the Plan for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. For the year ended June 30, 2018, the rate of the employer contribution was 10.25 percent of covered payroll. The School's contribution to the Plan for the year ended June 30, 2018 was \$118,787.

Other Postemployment Benefits Plan Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2018, the School reported a liability of \$4,771,392 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total pension liability used to calculate the net OPEB liability was determined by rolling forward the Plan's total

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE K OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

OPEB liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net OPEB liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2017, the School's proportion was 0.0578 percent, which was a decrease of 0.0069 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$120,739. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 9,447
Changes in proportions	-	520,138
Changes in assumptions	-	557,024
Contributions subsequent to the date of measurement	<u>118,787</u>	<u>-</u>
	<u>\$ 118,787</u>	<u>\$ 1,086,609</u>

An amount of \$118,787 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	
2019	\$ (217,795)
2020	(217,795)
2021	(217,795)
2022	(217,795)
2023	<u>(215,429)</u>
	<u>\$ (1,086,609)</u>

Actuarial Assumptions

The total OPEB liability as of the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, and update procedures were used to roll forward the

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE K OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions:

- Discount rate - 3.58 percent
- Salary increases - 3.25 percent + merit
- Healthcare cost trend rates - 7.00 percent

Mortality rates were based on the Sex Distinct RP-2014 Total Dataset Healthy Annuitant Mortality Table, including adjustment for healthy annuitant and disabled annuitant. Future mortality improvements are projected to 2020.

The total OPEB liabilities are measured based on the assumptions pertaining to interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2016. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the actual experience deviates, the larger the impact on future financial statements.

Discount Rate

The discount rate to measure the total OPEB liability was 2.85 percent at the beginning of the current measurement period and 3.58 percent at the end, based on the Bond Buyer GO 20-Bond Municipal Bond Index, an index satisfying the GASB requirement of an index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. 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 employer contributions to the Plan will continue to follow the pay-as-you-go contribution policy. Based on the assumptions of a pay-as-you-go plan, the discounts rates used at the June 30, 2017 and 2016 measurement date are equal to the applicable rate of the 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 3.58 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58 percent) or one percentage point higher (4.58 percent) than the current rate.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE K OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

	1% Decrease 2.58%	Current Rate Discount Rate 3.58%	1% Increase 4.58%
School's proportionate share of the net pension liability	\$ 5,721,153	\$ 4,771,392	\$ 4,031,354

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, calculated using the healthcare cost trend rate of 7.0 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate.

	1% Decrease 6.0%	Current Rate Discount Rate 7.0%	1% Increase 8.0%
School's proportionate share of the net pension liability	\$ 4,039,950	\$ 4,771,392	\$ 5,667,432

Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in PERS Comprehensive Annual Financial Report, which can be found on the Plan's website at [www.delawarepensions.com](http://www.delawarepensions.com).

NOTE L COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. Refer to Notes F and H for details.

Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE M RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in the past year.

NOTE N EXCESS EXPENDITURES OVER APPROPRIATIONS

The following general fund functions incurred expenditures in excess of budget appropriations in the following amounts for the year ended June 30, 2018:

Salaries	\$	4,069
Student activities	\$	3,807
Equipment	\$	3,041

The excess of expenditures was financed by the School's use of prior year's reserves.

NOTE O DEFICIT NET POSITION

For governmental activities, the unrestricted net deficit amount of \$6,357,469 includes the effect of deferring the recognition of pension and OPEB contributions made subsequent to the measurement date of the net pension liability and net OPEB liability, and the deferred outflows related to the pension and OPEB plans. This is offset by the School's actuarially determined pension liability and OPEB liability, and the deferred inflows related to the pension and OPEB plans.

NOTE P SUBSEQUENT EVENTS

The School has decreased its July 1, 2016 net position by \$5,737,263 due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The School recorded a beginning deferred outflow for OPEB contributions of \$137,103 and a beginning net OPEB liability of \$5,874,366.

The School has evaluated all subsequent events through September 28, 2018, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**



**ACADEMY OF DOVER CHARTER SCHOOL  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges to school districts	\$ 371,465	\$ 359,708	\$ 352,850	\$ (6,858)
State aid	2,082,854	2,120,751	2,116,136	(4,615)
Federal aid	644,741	609,131	496,287	(112,844)
Earnings on cash and investments	-	-	1,489	1,489
Miscellaneous	17,512	17,512	9,223	(8,289)
<b>TOTAL REVENUES</b>	<u>3,116,572</u>	<u>3,107,102</u>	<u>2,975,985</u>	<u>(131,117)</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	1,200,923	1,196,270	1,200,339	(4,069)
Employment costs	647,079	645,232	620,381	24,851
Contractual services	200,189	197,634	137,974	59,660
Communication	14,100	14,100	13,554	546
Public utility services	50,000	50,000	45,783	4,217
Insurance	32,000	32,000	31,892	108
Transportation - buses	210,000	210,000	210,000	-
Land/building/facilities	503,444	503,444	503,444	-
Repairs and maintenance	26,000	26,000	9,161	16,839
Food service	117,901	117,901	108,162	9,739
Supplies and materials	82,169	82,169	73,134	9,035
Student activities	-	-	3,807	(3,807)
Contingency reserve	48,919	48,504	-	48,504
Capital outlays:				
Equipment	500	500	3,541	(3,041)
Debt service:				
Principal	50,000	50,000	50,000	-
<b>TOTAL EXPENDITURES</b>	<u>3,183,224</u>	<u>3,173,754</u>	<u>3,011,172</u>	<u>162,582</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (66,652)</u>	<u>\$ (66,652)</u>	(35,187)	<u>\$ 31,465</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>18,638</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ (16,549)</u>	

NOTE: The School's budget is presented on the modified accrual basis of accounting.

**ACADEMY OF DOVER CHARTER SCHOOL  
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2018**

PROPORTIONATE SHARE OF NET PENSION LIABILITY	MEASUREMENT DATE		
	JUNE 30, 2017	JUNE 30, 2016	JUNE 30, 2014
School's proportion of the net pension liability	0.0591%	0.0667%	0.0701%
School's proportion of the net pension liability - dollar value	\$ 867,114	\$ 1,005,614	\$ 466,028
School's covered employee payroll	\$ 1,152,244	\$ 1,272,693	\$ 1,306,444
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	75.25%	79.01%	35.67%
Plan fiduciary net position as a percentage of the total pension liability	85.31%	84.11%	92.67%
			95.80%

Note: The above information is presented as of the Plan's measurement date.

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**ACADEMY OF DOVER CHARTER SCHOOL  
SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2018**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2018</u>	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 112,249	\$ 110,385	\$ 121,924	\$ 124,896
Contributions in relation to the contractually required contribution	<u>112,249</u>	<u>110,385</u>	<u>121,924</u>	<u>124,896</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 974,384	\$ 1,152,244	\$ 1,272,693	\$ 1,306,444
Contributions as a percentage of covered-employee payroll	11.52%	9.58%	9.58%	9.56%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**ACADEMY OF DOVER CHARTER SCHOOL  
 SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 FOR THE YEAR ENDED JUNE 30, 2018**

<u>PROPORTIONATE SHARE OF NET OPEB LIABILITY</u>	<u>MEASUREMENT DATE</u> <u>JUNE 30, 2017</u>
School's proportion of the net OPEB liability	0.0578%
School's proportion of the net OPEB liability - dollar value	\$ 4,771,392
School's covered employee payroll	\$ 1,182,942
School's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	403.35%
Plan fiduciary net position as a percentage of the total OPEB liability	4.13%

Note: The above information is presented as of the Plan's measurement date.

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**ACADEMY OF DOVER CHARTER SCHOOL  
SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2018**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2018</u>
Contractually required contribution	\$ 118,787
Contributions in relation to the contractually required contribution	<u>118,787</u>
Contribution excess	<u>\$ -</u>
School's covered employee payroll	\$ 1,158,898
Contributions as a percentage of covered-employee payroll	10.25%

In accordance with GASB Statement No. 75, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**SUPPLEMENTARY INFORMATION**

**ACADEMY OF DOVER CHARTER SCHOOL  
COMBINING BALANCE SHEET - GENERAL FUND  
JUNE 30, 2018**

	State Allocation	Local Funding	Federal Funding	Totals
<b>ASSETS</b>				
Cash and pooled cash	\$ -	\$ 254,653	\$ -	\$ 254,653
Due from other governments	-	-	28,138	28,138
<b>TOTAL ASSETS</b>	\$ -	\$ 254,653	\$ 28,138	\$ 282,791
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ 10,485	\$ -	\$ 10,485
Accrued salaries and related costs	244,914	15,803	28,138	288,855
<b>TOTAL LIABILITIES</b>	244,914	26,288	28,138	299,340
<b>FUND BALANCES (DEFICIT):</b>				
Unassigned (deficit)	(244,914)	228,365	-	(16,549)
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ -	\$ 254,653	\$ 28,138	\$ 282,791

**ACADEMY OF DOVER CHARTER SCHOOL  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	State Allocation	Local Funding	Federal Funding	Totals
<b>REVENUES</b>				
Charges to school districts	\$ -	\$ 352,850	\$ -	\$ 352,850
State aid	2,116,136	-	-	2,116,136
Federal aid	-	-	266,195	266,195
Earnings on cash and investments	-	1,489	-	1,489
School lunch services - grants	-	-	230,092	230,092
Miscellaneous	-	9,223	-	9,223
<b>TOTAL REVENUES</b>	<b>2,116,136</b>	<b>363,562</b>	<b>496,287</b>	<b>2,975,985</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Instructional services	1,399,674	59,416	266,195	1,725,285
Operation and maintenance of facilities	622,742	165,620	-	788,362
Transportation	105,000	105,000	-	210,000
Food services	3,892	-	230,092	233,984
Capital outlays:				
Equipment	-	3,541	-	3,541
Debt service:				
Principal	-	50,000	-	50,000
<b>TOTAL EXPENDITURES</b>	<b>2,131,308</b>	<b>383,577</b>	<b>496,287</b>	<b>3,011,172</b>
<b>NET CHANGE IN FUND BALANCES</b>	(15,172)	(20,015)	-	(35,187)
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	<b>(229,742)</b>	<b>248,380</b>	<b>-</b>	<b>18,638</b>
<b>FUND BALANCES (DEFICIT), END OF YEAR</b>	<b>\$ (244,914)</b>	<b>\$ 228,365</b>	<b>\$ -</b>	<b>\$ (16,549)</b>



**ACADEMY OF DOVER CHARTER SCHOOL  
 SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2018**

EXPENDITURES

Current:

Salaries	\$ 1,200,339
Employment costs	620,381
Contractual services	137,974
Communication	13,554
Public utility services	45,783
Insurance	31,892
Transportation - buses	210,000
Land/building/facilities	503,444
Repairs and maintenance	9,161
Food service	108,162
Supplies and materials	73,134
Student activities	3,807
Equipment	3,541
Debt service - principal	<u>50,000</u>

TOTAL EXPENDITURES	<u><u>\$ 3,011,172</u></u>
--------------------	----------------------------

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

September 28, 2018

Board of Directors  
Academy of Dover Charter School  
Dover, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Academy of Dover Charter School ("the School"), Dover, Delaware, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School'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.

Board of Directors  
Academy of Dover Charter School

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Barbacane, Thornton & Company LLP*  
BARBACANE, THORNTON & COMPANY LLP

## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

ACADEMY OF DOVER CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

**2017-001**

EMPLOYMENT CONTRACT AND EVALUATION FOR HEAD OF SCHOOL

Condition

During our prior year audit, we noted that the most recent employment agreement for the Head of School dated March 19, 2015 was effective for the period March 19, 2015 through July 1, 2016. For the period July 1, 2016 forward, the Head of School has been working for the Academy of Dover without an active employment contract. Additionally, the Head of School has not received her performance evaluation for the 2017 year. This evaluation is required to be submitted to the Department of Education on an annual basis.

Criteria

Employees, especially those positions such as the Head of School, need to be working under an active employment contract. Additionally, the performance evaluation for the Head of School is required to be submitted to the Department of Education.

Cause

Procedures are not in place to ensure that the performance evaluation of the Head of School is being completed on a timely basis, and that the employment contract is being maintained to remain current and in effect.

Recommendation

We recommended that the School update the employment contract for the Head of School, and establish procedures to ensure the yearly performance evaluation for the Head of School is completed on a timely basis and submitted to the Department of Education.

Status

During our current year audit, we noted that the Head of School has an active employment contract, and has received an evaluation. Therefore, this recommendation is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.