



DELAWARE MILITARY ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
WILMINGTON, DELAWARE

FINANCIAL STATEMENTS

JUNE 30, 2016

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 11
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
Statements of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	17
Statements of Fiduciary Net Position - Agency Fund	18
Notes to Financial Statements	19 - 35
REQUIRED SUPPLEMENTARY INFORMATION SECTION	
Budgetary Comparison Schedule - Governmental Funds	36
Schedule of the School's Proportionate Share of the Net Pension Liability	37
Schedule of School Contributions	38

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)

TABLE OF CONTENTS

	<u>PAGE</u>
SUPPLEMENTARY SECTION	
Combining Balance Sheet - General Fund	39
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund	40
Schedule of Expenditures by Natural Classification - Governmental Funds	41
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>	42 - 43

INDEPENDENT AUDITOR'S REPORT

September 19, 2016

Board of Directors
Delaware Military Academy Charter School
Wilmington, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Delaware Military Academy Charter School ("the School"), Wilmington, Delaware, a component unit of the State of Delaware, as of and for the year ended June 30, 2016, 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 School'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 School'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
Delaware Military Academy 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, each major fund, and the aggregate remaining fund information of the Delaware Military Academy Charter School, Wilmington, Delaware, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the School has adopted the requirements of GASB Statement No. 72, "Fair Value Measurement Application." This statement addresses accounting and financial reporting issues related to fair value measurements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the School's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated September 28, 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 Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the budgetary comparison schedule on page 36, the schedule of the School's proportionate share of the net pension liability on page 37 and the schedule of school contributions on page 38 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
Delaware Military Academy Charter School

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 - governmental funds 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 - governmental funds 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 - governmental funds 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 19, 2016 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

BARBACANE, THORNTON & COMPANY LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016**

Our discussion and analysis of the financial performance of the Delaware Military Academy Charter School ("the School") provides an overview of the School's financial activities for the year ended June 30, 2016, which is the School's thirteenth full year of operation. Please read it in conjunction with the Independent Auditor's Report and the School's financial statements.

FINANCIAL HIGHLIGHTS

The School's net position increased by \$468,791, and general revenues accounted for \$5.7 million or 86 percent of total revenues. The School continues to receive support and contributions in the amount of approximately \$300,000 annually from the Navy Department of NJROTC.

The School reported a net deficit as of June 30, 2016 in the amount of \$448,051.

USING THE ANNUAL FINANCIAL REPORT

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so that the reader can understand the School as a whole and then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Position and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net position (deficit) and changes in net position (deficit). The change in net position (deficit) provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment stability and facility conditions in arriving at a conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major funds and fund financial statements provides detailed information about the most significant funds - not the School as a whole. Some funds are required to be established by State statute, while other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

Governmental Funds

All of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. Activities related to capital assets, long-term debt, and compensated absences are the primary reconciling items.

ENTITY-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 and deferred inflows of resources exceeded assets and deferred outflows of resources by \$448,051 at the close of the fiscal year. A comparative net position analysis of fiscal years 2015 and 2016 follows:

**Table 1
NET POSITION**

	Governmental Activities	
	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current and Other Assets:		
Cash and pooled cash	\$ 2,600,539	\$ 3,880,782
Investments	1,021,603	-
Accounts and pledges receivable	138,139	64,521
Total Current Assets	<u>3,760,281</u>	<u>3,945,303</u>
Noncurrent Assets:		
Land and land improvements	3,007,540	2,987,665
Construction-in-progress	110,426	-
Capital assets, net of depreciation	8,212,156	8,489,909
Due from State of Delaware	405,896	363,099
Total Noncurrent Assets	<u>11,736,018</u>	<u>11,840,673</u>
Deferred Outflows of Resources:		
Deferred pension contributions	266,831	258,183
Deferred outflows - pension	24,974	33,666
Total Deferred Outflows of Resources	<u>291,805</u>	<u>291,849</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>15,788,104</u>	<u>16,077,825</u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

**Table 1
NET POSITION**

(cont'd)	Governmental Activities	
	2016	2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable	30,521	30,664
Accrued salaries and related costs	684,270	614,774
Accrued interest payable	216,581	163,711
Bonds payable, net	178,683	123,683
Note payable	-	100,000
Total Current Liabilities	1,110,055	1,032,832
Noncurrent Liabilities:		
Compensated absences	405,896	363,099
Bonds payable, net	13,462,870	13,641,553
Notes payable	-	600,000
Net pension liability	943,136	524,175
Total Noncurrent Liabilities	14,811,902	15,128,827
TOTAL LIABILITIES	15,921,957	16,161,659
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows – pension	314,198	833,008
Total Deferred Inflows of Resources	314,198	833,008
NET POSITION (DEFICIT):		
Net investment in capital assets	(988,307)	(1,675,643)
Restricted	1,378,023	1,352,344
Unrestricted (deficit)	(837,767)	(593,543)
TOTAL NET POSITION (DEFICIT)	\$ (448,051)	\$ (916,842)

**Table 2
CHANGES IN NET POSITION**

	Governmental Activities	
	2016	2015
REVENUES		
General revenue:		
Charges to school districts	\$ 1,787,037	\$ 1,711,044
Payments from primary government	3,948,485	3,404,589
Earnings on cash and investments	49,829	11,038
Program revenue:		
Charges for services	152,185	152,013
Operating grants and contributions	816,225	1,098,288
TOTAL REVENUES	6,753,761	6,376,972

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

**Table 2
CHANGES IN NET POSITION**

(cont'd)	Governmental Activities	
	2016	2015
EXPENSES		
Instructional services	4,553,816	4,209,010
Support services:		
Operation and maintenance of facilities	559,904	534,316
Transportation	384,561	415,821
Food service	56,664	63,142
Interest and financing costs	730,025	1,139,107
SWAP termination fee	-	950,900
TOTAL EXPENSES	<u>6,284,970</u>	<u>7,312,296</u>
CHANGE IN NET POSITION	<u>\$ 468,791</u>	<u>\$ (935,324)</u>

Governmental Activities

Net position of the School's governmental activities increased by \$468,791.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues that include charges to school districts, investment earnings, and state entitlements must support the net cost of the School's programs.

	2016		2015	
	Total Cost	Net Cost (Revenue)	Total Cost	Net Cost
<i>Governmental Activities</i>				
Instructional services	\$ 4,553,816	\$ 3,737,591	\$ 4,209,010	\$ 3,526,543
Support services:				
Operation and maintenance of facilities	559,904	485,019	534,316	459,621
Transportation	384,561	384,561	415,821	-
Food service	56,664	(20,636)	63,142	(14,176)
Interest and financing costs	730,025	730,025	1,139,107	1,139,107
SWAP termination fee	-	-	950,900	950,900
Total Expenses	<u>\$ 6,284,970</u>	<u>\$ 5,316,560</u>	<u>\$ 7,312,296</u>	<u>\$ 6,061,995</u>

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$5,316,560 of support.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

THE SCHOOL'S FUNDS

The School's governmental funds (as presented on the balance sheet) as of June 30, 2016 reported a combined fund balance of \$2,971,767 compared to last year's total fund balance of \$3,299,865.

Governmental Funds

The School's fund balance decreased due largely to management's election to pay off an outstanding note payable near year end in the amount of \$700,000 from available reserves. This election was made in order to realize future savings on interest expense. This decrease is offset by the School's careful management of costs in other areas. The table that follows assists in illustrating the financial activities and balance of governmental funds.

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Total Governmental Funds	
	2016	2015
REVENUES		
Charges to school districts	\$ 1,787,037	\$ 1,711,044
State aid	3,905,688	3,824,236
Federal aid	147,098	89,518
Food service	77,300	77,318
Cadet fees	74,885	74,695
Earnings on cash and investments	49,829	11,038
Contributions	595,404	592,949
TOTAL REVENUES	6,637,241	6,380,798
EXPENDITURES		
Current:		
Instructional services	4,581,784	4,366,366
Operation and maintenance of facilities	277,103	252,270
Transportation	384,561	415,821
Food service	56,664	63,142
Capital outlays:		
Property	160,501	1,000,000
Equipment	3,888	25,199
Debt service:		
Principal	820,000	240,000
Interest	672,488	318,034
Financing costs	8,350	87,953
TOTAL EXPENDITURES	6,965,339	6,768,785
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(328,098)	(387,987)

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

(cont'd)	Total Governmental Funds	
	2016	2015
OTHER FINANCING SOURCES (USES)		
Payments to refunding agent	-	(10,915,000)
Bond issuance costs	-	(573,092)
SWAP termination fee	-	(950,900)
Premium on bonds	-	128,919
Proceeds from issuance of long term debt	-	14,340,000
TOTAL OTHER FINANCING SOURCES	-	2,029,927
 NET CHANGE IN FUND BALANCES	 (328,098)	 1,641,940
 FUND BALANCES, BEGINNING OF YEAR	 <u>3,299,865</u>	 <u>1,657,925</u>
 FUND BALANCES, END OF YEAR	 <u>\$ 2,971,767</u>	 <u>\$ 3,299,865</u>

The increase in revenues for the year was due to an increase in both state aid and revenues from local school districts during the current fiscal year, with other revenues remaining consistent with the prior year. Student enrollment decreased slightly from the prior year.

Expenditures overall exceeded revenues during the fiscal year, resulting in a \$328,098 decrease in fund balances.

GENERAL FUND BUDGET INFORMATION

The School's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted funds are the General Fund, Debt Service Fund, and Capital Projects Fund. The School may amend its revenue and expenditure estimates periodically due to changing conditions. The budget is presented as amended.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 36.

Revenues

Charges to School Districts

An unfavorable variance of \$93,328 is attributed to an unexpected slight decrease in enrollment from the prior year.

State Aid

A favorable variance of \$135,966 is attributed to increases in the amounts granted from the State for rising benefit and other personnel costs, as well as conservative budgeting practices.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

Federal Aid

An unfavorable variance of \$61,307 results from the timing of recognition of federal funds. Federal funds are recognized when they are spent. These funds are typically 15-month grants, and their start/end dates do not align with the fiscal year. More federal funds will be spent in the next fiscal year to obligate the funds prior to the grants' various expiration dates.

Earnings on Cash and Investments

A favorable variance of \$49,829 is attributed to the School investing its funds held in reserve to meet debt service covenants in certificates of deposit earning a higher interest rate than previously realized. In addition, earnings on cash and investments has historically not been a budgeted item due to the very low interest rates available in previous years.

Contributions

A favorable variance of \$55,784 is primarily attributed to receiving additional contributions from the community and staff in preparation of the School's future expansion.

Expenditures

Benefits and Employment Costs

An unfavorable variance of \$73,989 is attributed to the cost of health insurance and other benefits increasing much more than predicted. Health insurance costs in particular increased \$65,601, or 17 percent from fiscal year 2015.

Contractual Services

A favorable variance of \$165,115 is attributed to the School's careful management of its costs for professional services and other related expenses.

Land, Building, and Facilities

An unfavorable variance of \$40,280 is attributed largely to noncapital appraisal fees and permit and application fees incurred in the Capital Projects Fund during the preliminary phase of the construction of the School's athletic and academic center.

Supplies and Materials

A favorable variance of \$37,012 is attributed to staff being more efficient with the utilization of instructional supplies and materials, and the School's overall effort to maintain its costs.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
JUNE 30, 2016**

Capital Outlay – Property and Equipment

An unfavorable variance of \$58,389 is primarily attributed to the engineering, architectural, and design expenses during the preliminary planning phases for the School's academic and athletic center.

Debt Service – Principal

An unfavorable variance of \$600,000 is attributed to the repayment of the School's outstanding loan for the acquisition of land made in the prior fiscal year. The School elected to repay the amount in its entirety from available reserves in order to realize savings on interest expense in future years.

CAPITAL ASSETS

The School has \$11,330,122 invested in capital assets net of depreciation. Acquisitions totaled \$164,389, and depreciation was \$311,841. The majority of the additions were for capitalized engineering, architectural, and design costs performed during the planning phase of the School's academic and athletic center, which will begin construction in fiscal year 2017. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

DEBT ADMINISTRATION

At the end of the current fiscal year, the School has total debt outstanding, net of premiums, of \$13,641,553. The majority of this debt is a direct result of purchasing the School facility.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Fiscal year 2016 was the thirteenth year of operation as a functioning school. During fiscal year 2017, construction will begin on the School's new 27,000 square foot athletic and academic center, which will include eight classrooms, a gymnasium with a seating capacity for 750 people, offices, locker rooms, and an athletic training facility. The construction of the facility is expected to cost approximately \$6 million, the majority of which is expected to be funded through the School's capital campaign efforts.

During fiscal year 2016, the School's charter with the Red Clay Consolidated School District was also approved for an additional five years. Upon the completion of the academic and athletic center, the charter will also be able to increase its enrollment by an additional 36 students, which will increase revenues from both local school districts and the State.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, parents, investors, potential investors, and creditors with a general overview of the School's finances. If you have questions about this report or need additional financial information, contact the School's Chief Financial Officer at (302) 998-0745.

BASIC FINANCIAL STATEMENTS

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	Governmental Activities	
	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and pooled cash	\$ 2,600,539	\$ 3,880,782
Investments	1,021,603	-
Accounts receivable	64,416	64,521
Pledges receivable	73,723	-
Total Current Assets	3,760,281	3,945,303
NONCURRENT ASSETS:		
Land and land improvements	3,007,540	2,987,665
Construction-in-progress	110,426	-
Capital assets, net of depreciation	8,212,156	8,489,909
Due from State of Delaware	405,896	363,099
Total Noncurrent Assets	11,736,018	11,840,673
TOTAL ASSETS	15,496,299	15,785,976
 DEFERRED OUTFLOWS OF RESOURCES:		
Deferred pension contributions	266,831	258,183
Deferred outflows - pension	24,974	33,666
TOTAL DEFERRED OUTFLOWS OF RESOURCES	291,805	291,849
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 15,788,104	\$ 16,077,825
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 30,521	\$ 30,664
Accrued salaries and related costs	684,270	614,774
Accrued interest payable	216,581	163,711
Bonds payable, net	178,683	123,683
Note payable	-	100,000
Total Current Liabilities	1,110,055	1,032,832
NONCURRENT LIABILITIES:		
Compensated absences	405,896	363,099
Bonds payable, net	13,462,870	13,641,553
Note payable	-	600,000
Net pension liability	943,136	524,175
Total Noncurrent Liabilities	14,811,902	15,128,827
TOTAL LIABILITIES	15,921,957	16,161,659
 DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows - pension	314,198	833,008
TOTAL DEFERRED INFLOWS OF RESOURCES	314,198	833,008
 NET POSITION (DEFICIT):		
Net investment in capital assets	(988,307)	(1,675,643)
Restricted	1,378,023	1,352,344
Unrestricted (deficit)	(837,767)	(593,543)
TOTAL NET POSITION (DEFICIT)	(448,051)	(916,842)
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	\$ 15,788,104	\$ 16,077,825

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

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Data for the Year Ended June 30, 2015)

	Program Revenues		Capital Grants and Contributions		Net (Expense) Revenue and Changes in Net Position	
	Charges for Services	Operating Grants and Contributions	Grants and Contributions	Totals		
	Expenses	\$	\$	2016	2015	
GOVERNMENTAL ACTIVITIES						
Instructional services	\$ (4,553,816)	\$ 816,225	\$ -	\$ (3,737,591)	\$ (3,526,543)	
Support services:						
Operation and maintenance of facilities	(559,904)	-	-	(485,019)	(459,621)	
Transportation	(384,561)	-	-	(384,561)	-	
Food service	(56,664)	77,300	-	20,636	14,176	
Interest and financing costs on long-term debt	(730,025)	-	-	(730,025)	(1,139,107)	
SWAP termination fee	-	-	-	-	(950,900)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ (6,284,970)	\$ 816,225	\$ -	(5,316,560)	(6,061,995)	
GENERAL REVENUES						
Charges to school districts		1,787,037		1,787,037	1,711,044	
Payments from primary government		3,948,485		3,948,485	3,404,589	
Earnings on cash and investments		49,829		49,829	11,038	
TOTAL GENERAL REVENUES		5,785,351		5,785,351	5,126,671	
CHANGE IN NET POSITION				468,791	(935,324)	
NET POSITION (DEFICIT), BEGINNING OF YEAR				(916,842)	18,482	
NET POSITION (DEFICIT), END OF YEAR				\$ (448,051)	\$ (916,842)	

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

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2016

(With Summarized Comparative Data for June 30, 2015)

	General Fund	Debt Service Fund	Capital Projects Fund	Totals
				2016 2015
ASSETS				
Cash and pooled cash	\$ 2,165,426	\$ 174,008	\$ 261,105	\$ 2,600,539
Investments	63,667	957,936	-	1,021,603
Accounts receivable	64,416	-	-	64,416
Pledges receivable	-	-	73,723	73,723
TOTAL ASSETS	<u>\$ 2,293,509</u>	<u>\$ 1,131,944</u>	<u>\$ 334,828</u>	<u>\$ 3,760,281</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 15,495	-	\$ 15,026	\$ 30,521
Accrued salaries and related benefits	684,270	-	-	684,270
Total Liabilities	<u>699,765</u>	<u>-</u>	<u>15,026</u>	<u>714,791</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - pledges	-	-	73,723	73,723
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>73,723</u>	<u>-</u>
FUND BALANCES:				
Committed	216,350	-	-	216,350
Restricted	-	1,131,944	246,079	1,378,023
Unassigned	1,377,394	-	-	1,377,394
Total Fund Balances	<u>1,593,744</u>	<u>1,131,944</u>	<u>246,079</u>	<u>2,971,767</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,293,509</u>	<u>\$ 1,131,944</u>	<u>\$ 334,828</u>	<u>\$ 3,760,281</u>

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

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2016**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 2,971,767

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

Capital assets used in 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. 11,330,122

Long-term assets (the reimbursement for compensated absences) applicable to governmental activities are not due and receivable in the current period and, therefore, are not reported as fund assets.

Due from State of Delaware 405,896

Some of the School's revenues will be collected after year end but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds. 73,723

Long-term liabilities applicable to the governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Those liabilities consist of:

Compensated absences	\$ (405,896)	
Accrued interest payable	(216,581)	
Bonds payable	(13,641,553)	
Net pension liability	<u>(943,136)</u>	(15,207,166)

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 pension contributions	266,831	
Deferred outflows - pension	24,974	
Deferred inflows	<u>(314,198)</u>	<u>(22,393)</u>

TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES \$ (448,051)

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

DELAWARE MILITARY ACADEMY CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Data for the Year Ended June 30, 2015)

	General Fund	Debt Service Fund	Capital Projects Fund	Totals	
				2016	2015
REVENUES					
Charges to school districts	\$ 1,787,037	\$ -	\$ -	\$ 1,787,037	\$ 1,711,044
State aid	3,905,688	-	-	3,905,688	3,824,236
Federal aid	147,098	-	-	147,098	89,518
Food service	77,300	-	-	77,300	77,318
Cadet fees	74,885	-	-	74,885	74,695
Earnings on cash and investments	17,404	32,425	-	49,829	11,038
Contributions	446,419	-	148,985	595,404	592,949
TOTAL REVENUES	6,455,831	32,425	148,985	6,637,241	6,380,798
EXPENDITURES					
Current:					
Instructional services	4,581,784	-	-	4,581,784	4,366,366
Operation and maintenance of facilities	224,706	-	52,397	277,103	252,270
Transportation	384,561	-	-	384,561	415,821
Food service	56,664	-	-	56,664	63,142
Capital outlays:					
Property	50,075	-	110,426	160,501	1,000,000
Equipment	3,888	-	-	3,888	25,199
Debt service:					
Principal	-	820,000	-	820,000	240,000
Interest	-	672,488	-	672,488	318,034
Financing costs	-	8,350	-	8,350	87,953
TOTAL EXPENDITURES	5,301,678	1,500,838	162,823	6,965,339	6,768,785
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,154,153	(1,468,413)	(13,838)	(328,098)	(387,987)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	1,507,930	259,917	1,767,847	818,008
Transfers out	(1,507,930)	(259,917)	-	(1,767,847)	(818,008)
Payments to refunding agent	-	-	-	-	(10,915,000)
Bond issuance costs	-	-	-	-	(573,092)
SWAP termination fee	-	-	-	-	(950,900)
Premium on bonds	-	-	-	-	128,919
Proceeds from debt issuance	-	-	-	-	14,340,000
TOTAL OTHER FINANCING SOURCES (USES)	(1,507,930)	1,248,013	259,917	-	2,029,927
NET CHANGE IN FUND BALANCES	(353,777)	(220,400)	246,079	(328,098)	1,641,940
FUND BALANCES, BEGINNING OF YEAR	1,947,521	1,352,344	-	3,299,865	1,657,925
FUND BALANCES, END OF YEAR	\$ 1,593,744	\$ 1,131,944	\$ 246,079	\$ 2,971,767	\$ 3,299,865

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

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (328,098)

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 \$1,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital outlays	\$ 164,389	
Depreciation expense	<u>(311,841)</u>	(147,452)

Some revenues reported in the statement of activities are not available to finance current expenditures and, therefore, are not reported as revenues in the governmental funds. 116,520

The issuance of long-term debt (e.g., notes, bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Payment of bond principal	820,000	
Amortization of bond premium	3,683	
Accrued interest on bonds payable	<u>(52,870)</u>	770,813

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 the governmental funds.

Compensated absences	(42,797)
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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 organization'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.

99,805

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 468,791</u></u>
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The accompanying notes are an integral part of these financial statements.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
STATEMENTS OF FIDUCIARY NET POSITION - AGENCY FUND
JUNE 30, 2016 AND 2015**

	Student Activities Fund	
	2016	2015
ASSETS:		
Cash and cash equivalents	\$ 34,666	\$ 30,757
TOTAL ASSETS	\$ 34,666	\$ 30,757
LIABILITIES AND NET POSITION:		
LIABILITIES		
Other current liabilities	\$ 34,666	\$ 30,757
TOTAL LIABILITIES	34,666	30,757
NET POSITION	-	-
TOTAL LIABILITIES AND NET POSITION	\$ 34,666	\$ 30,757

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

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

The Delaware Military Academy Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. The Delaware Military Academy Charter School's initial charter was granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that state, and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because charter schools receive local, state, and federal funds, they may not charge tuition.

The Delaware Military Academy Charter School was established in November 2002 but did not begin a regular school year until September 2003. The year 2016 was the thirteenth full year of operations, which was funded primarily with state and local funding based upon student enrollment.

The financial statements of the Delaware Military Academy Charter 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 Delaware Military Academy Charter School ("the School") are described below.

Reporting Entity

The School is a special purpose government and is considered 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 (the statement of net position and the statement of activities) report information on all of the activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

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 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, as well as expenditures related to compensated absences, are recorded only when payment is due.

Charges to the school districts, state appropriations, 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 and available only when the School receives cash.

The School reports the following major governmental funds:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- **Debt Service Fund.** This fund is maintained to accumulate resources for the payment of interest and principal on long-term debt.
- **Capital Projects Fund.** This fund is used to account for the acquisition, construction, and renovation of major capital facilities and their related capital assets.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Amounts reported or to be reported as program revenues include 1) charges to students for special fees, supplies, or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

Fiduciary Funds

Fiduciary funds account for the assets held by the School as a trustee or agent for individuals, private organizations, and/or governmental units and are, therefore, not available to support the School's own programs. The School accounts for these assets in an agency fund. The agency fund accounts for funds held on behalf of students of the School. The measurement focus and basis of accounting for the agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Cash and Cash Equivalents

The School's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, as well as cash deposits held in an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware.

Investments

Investments are recorded at fair value.

In establishing the fair value of investments, the School uses the following hierarchy. The lowest available level of valuation available is used for all investments.

Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Pledges Receivable

The School recognizes pledges as support in the period in which the unconditional promise to give is received.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The School estimates an allowance for doubtful accounts based on historical collection rates and an analysis of the collectibility of individual receivables. The allowance for doubtful accounts for pledges receivable was \$0 at June 30, 2016.

Capital Assets

Capital assets, which include leasehold improvements and furniture and equipment, are reported in the entity-wide financial statements. The School defines capital assets as assets with an initial cost of more than \$1,000 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 maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

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

Building	40 years
Furniture and fixtures	10 years
Equipment	7 years

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the entity-wide financial statements. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements. In addition, the State of Delaware Department of Education will reimburse the School.

Vacation – Twelve-month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination and/or retirement at the current rate of pay.

Sick Leave – Sick leave allowances are as follows: teachers shall be allowed 10 days of sick leave per year, and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit up to a maximum of 90 days. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fund Equity

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 Commandant 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 has provided otherwise in its commitment or assignment actions.

Net Position

Net position represents the difference between assets and liabilities. 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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Deferred Inflows/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 contributions resulting from pension contributions subsequent to the measurement date of the net pension liability and certain other items which represent differences related to changes in the net pension liability 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 liability which will be amortized over future periods.

Deferred inflows of resources represent an acquisition of fund balance that applies to a future period(s) and therefore, will not be recognized as an inflow of resources (revenue) until that time. In the governmental fund financial statements, deferred inflows or resources consist of unavailable revenue from pledges.

Use of Estimates in the Preparation of Financial Statements

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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 has been restated and reclassified, as needed, from the presentation in the School's June 30, 2015 basic financial statements to be comparative with the current year presentation.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Implementation of GASB Statements

During the year ended June 30, 2016, the School implemented GASB Statement No. 72, "Fair Value Measurement and Application." GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments, as well as improving disclosures related to all fair value measurements. The effects of this statement have been included in the School's financial statements.

NOTE 2 CASH, POOLED CASH, AND INVESTMENTS

Deposits

At June 30, 2016, the School had a cash and pooled cash balance of \$2,635,205. Of that amount, \$2,165,426 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware. 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.

At June 30, 2016, the reported amount of the School's deposits not held with the State Treasurer's Office was \$469,779, and the bank balance was \$469,779. Of the bank balance, \$458,674 was covered by federal depository insurance, and \$11,106 was exposed to custodial credit risk because it was uninsured.

Investments

State statutes authorize the School to invest in U.S. government securities, government agency securities, certificates of deposit, time deposits, and bankers acceptances, corporate debt instruments, money market funds, and other similar instruments that are insured by the Federal Deposit Insurance Corporation ("FDIC") or are backed by the full faith and credit of the United States of America or any of its agencies or instrumentalities.

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The School has the following recurring fair value measurements as of June 30, 2016:

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH, POOLED CASH, AND INVESTMENTS (cont'd)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 2</u>
Certificates of deposit	\$ 957,936	\$ 957,936
Delaware Community Foundation	<u>63,667</u>	<u>63,667</u>
TOTAL	<u>\$ 1,021,603</u>	<u>\$ 1,021,603</u>

The School's Level 2 investments in certificates of deposit are valued based on the value at which the investment could be redeemed as of the report date. All certificates of deposit held by the School at year end mature within one year. The School also maintains accounts within the Delaware Community Foundation. The accounts contain cash, money market funds, and securities on a commingled, unitized basis. There are no securities independently held in the School's name. The total amount invested with Delaware Community Foundation at June 30, 2016 was \$63,667.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. As of June 30, 2016, none of School's investments were subject to custodial credit risk.

Interest Rate Risk

The School does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, to ensure that its assets remain liquid enough to satisfy its current obligations, at June 30, 2016, all of the School's investments had maturity dates of less than one year.

Credit Risk

The School has no investment policy that would limit its investment choices to those with certain credit ratings.

NOTE 3 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Disposals</u>	<u>Ending Balance</u>
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land and land improvements	\$ 2,987,665	\$ 19,875	\$ -	\$ 3,007,540
Construction-in-progress	-	110,426	-	110,426
Total Capital Assets Being Depreciated	<u>2,987,665</u>	<u>130,301</u>	<u>-</u>	<u>3,117,966</u>

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

	Beginning Balance	Increase	Disposals	Ending Balance
Capital assets being depreciated:				
Buildings	11,285,106	30,200	-	11,315,306
Equipment	275,749	-	-	275,749
Furniture and fixtures	244,441	3,888	-	248,329
Total Capital Assets Being Depreciated	<u>11,805,296</u>	<u>34,088</u>	<u>-</u>	<u>11,839,384</u>
Accumulated depreciation:				
Buildings	(2,896,339)	(282,801)	-	(3,179,140)
Equipment	(220,173)	(14,973)	-	(235,146)
Furniture and fixtures	(198,875)	(14,067)	-	(212,942)
Total accumulated depreciation	<u>(3,315,387)</u>	<u>(311,841)</u>	<u>-</u>	<u>(3,627,228)</u>
Total Capital Assets Being Depreciated, Net	<u>8,489,909</u>	<u>(277,753)</u>	<u>-</u>	<u>8,212,156</u>
Governmental Activities Capital Assets, Net	<u>\$11,477,574</u>	<u>\$ (147,452)</u>	<u>\$ -</u>	<u>\$11,330,122</u>

Depreciation expense was charged to the following activities:

Governmental Activities:

Instructional services	\$ 29,040
Operation and maintenance of facilities	<u>282,801</u>
	<u>\$ 311,841</u>

NOTE 4 LONG-TERM DEBT

On November 18, 2014, the School issued \$13,640,000 of Series of 2014 Revenue Bonds through the Delaware Economic Development Authority for the purpose of refunding the Series of 2008 bond, and to purchase land for future expansion. The bonds bear interest at rates from 4.0 to 5.0 percent. The rate was 4.0 percent at June 30, 2016. Interest is payable semiannually on March 1 and September 1 of each year, and the bond matures on September 1, 2049. Interest expense on the bond for the year ended June 30, 2016 was \$709,831.

Under the terms of the bond agreement, the School is required to maintain a bank account with a trustee. As of June 30, 2016, these funds held with the trustee totaled \$1,131,944, and consisted of cash available to fund future principal and interest payments and investments in short-term certificates of deposit, which are included in the debt service fund in the accompanying financial statements.

The School is in compliance with the covenants to maintain a debt service coverage ratio at or above 1.10 for the fiscal year and to maintain not less than 60 days cash on hand.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT (cont'd)

On June 30, 2015, the School issued a \$700,000 note payable to purchase additional property in preparation of future expansion. Interest expense on the note for the year ended June 30, 2016 was \$20,194. This note was paid off in its entirety in June 2016.

An analysis of debt service requirements to maturity on this obligation is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 175,000	\$ 646,025	\$ 821,025
2018	185,000	638,375	823,375
2019	190,000	630,406	820,406
2020	200,000	622,119	822,119
2021	210,000	613,406	823,406
2022 - 2026	1,105,000	2,933,266	4,038,266
2027 - 2031	1,345,000	2,663,953	4,008,953
2032 - 2036	1,695,000	2,312,916	4,007,916
2037 - 2041	2,145,000	1,845,875	3,990,875
2042 - 2046	2,735,000	1,238,875	3,973,875
2047 - 2050	<u>3,535,000</u>	<u>422,875</u>	<u>3,957,875</u>
Total	<u>\$13,520,000</u>	<u>\$14,568,091</u>	<u>\$28,088,091</u>

A schedule of changes in long-term debt is as follows:

	<u>Beginning 07/01/2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding 06/30/2016</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds payable	\$13,640,000	\$ -	\$ 120,000	\$13,520,000	\$ 175,000
Bond premium	125,236	-	3,683	121,553	3,683
Bonds payable, net	13,765,236	-	123,683	13,641,553	178,683
Note payable	700,000	-	700,000	-	-
Total	<u>\$14,465,236</u>	<u>\$ -</u>	<u>\$ 823,683</u>	<u>\$13,641,553</u>	<u>\$ 178,683</u>

NOTE 5 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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

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").

The following are brief descriptions of the Plan in effect as of June 30, 2015. 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.

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 12 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 10 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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

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 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, 2016, the rate of the employer contribution was 9.58 percent of covered payroll. The School's contribution to PERS for the years ended June 30, 2016 was \$266,831.

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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

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

At June 30, 2016, the School reported a liability of \$943,136 for 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 Plan's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the 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, 2015, the School's proportion was 0.1418 percent, which was a decrease of 0.0006 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized pension expense in the amount of \$167,026. 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>
Net difference between projected and actual investment earnings	\$ -	\$ 288,369
Changes in proportions	24,974	4,673
Contributions subsequent to the date of measurement	266,831	-
Differences between actual and expected experience	-	21,156
	<u>\$ 291,805</u>	<u>\$ 314,198</u>

An amount of \$266,831 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2015 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:

<u>Year Ending June 30,</u>	
2017	\$ (72,263)
2018	(72,263)
2019	(72,263)
2020	(72,263)
2021	(172)
	<u>\$ (289,224)</u>

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Actuarial Assumptions

The total pension liability as of the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. These actuarial valuations used the following actuarial assumptions, applied to all periods:

- Investment return – 7.2 percent, including inflation of 3.0 percent
- Salary increases – 3.5 percent to 11.5 percent, including inflation of 3.0 percent
- Cost-of-living adjustments – ad hoc

The total pension 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 2011. 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 Sex Distinct RP-2000 Combined Mortality Table projected to 2016 using scale AA for Males or Females, as appropriate, for mortality improvement.

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%	36.5%
International equity	5.7%	16.5%
Fixed income	2.0%	22.6%
Alternative investments	7.8%	19.6%
Cash and equivalents	-	4.8%

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Discount Rate

The discount used to measure the total pension liability was 7.2 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 7.2 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 (6.2 percent), or one percentage point higher (8.2 percent) than the current rate.

	1% Decrease <u>6.2%</u>	Current Rate Discount Rate <u>7.2%</u>	1% Increase <u>8.2%</u>
School's proportionate share of the net pension liability (asset)	\$ 2,131,339	\$ 943,136	\$ (449,059)

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.

NOTE 6 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 7 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. The School does not anticipate losses from these transactions.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 7 COMMITMENTS AND CONTINGENCIES (cont'd)

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 by the State Office of Auditor of Accounts and other federal agencies. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

Construction Commitments

The School is currently in the preliminary planning and design phase for the construction of a new athletics and academic center. The project commitments and amounts completed are as follows:

	<u>Project Amount</u>	<u>Completed as of 06/30/16</u>	<u>Commitments</u>
Governmental Activities:			
Planning and site design	\$ 63,000	\$ 61,702	\$ 1,298
Soils testing	16,650	16,650	-
Demolition fees	15,000	15,000	-
	<u>\$ 94,650</u>	<u>\$ 93,352</u>	<u>\$ 1,298</u>

In addition, the School has incurred costs totaling \$17,074 that were not under a formalized contract, primarily for other planning and design services.

NOTE 8 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School incurred expenditures in excess of appropriations in the following categories for the year ended June 30, 2016:

Benefits and employment costs	\$ 73,989
Travel	\$ 2,318
Insurance	\$ 246
Land, building, and facilities	\$ 40,280
Repairs and maintenance	\$ 11,728
Capital outlay - property	\$ 65,501
Debt service - principal	\$ 600,000

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 8 EXCESS EXPENDITURES OVER APPROPRIATIONS (cont'd)

The excess expenditures in the debt service - principal category are related to the School electing to pay off the remaining balance of the note payable issued in fiscal year 2015 for the purchase of land. This excess expenditure was paid from the School's available reserves. The remaining excess expenditures in other categories were covered by other current year expenditure appropriations that were under budget.

See the management's discussion and analysis on pages 4 to 11 for further explanations of the significant variances.

NOTE 9 FUND BALANCES

As of June 30, 2016, fund balances are composed of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Committed:				
Delaware Community Foundation	\$ 63,667	\$ -	\$ -	\$ 63,667
Capital	125,000	-	-	125,000
JROTC	27,683	-	-	27,683
Restricted:				
Capital projects	-	288,380	246,079	534,459
Debt service	-	843,564	-	843,564
Unassigned	<u>1,377,394</u>	-	-	<u>1,377,394</u>
Total Fund Balances	<u>\$ 1,593,744</u>	<u>\$ 1,131,944</u>	<u>\$ 246,079</u>	<u>\$ 2,971,767</u>

During 2007, the School received contributions of \$30,014 to be held with the Delaware Community Foundation. The monies held are to be spent at the discretion of the Board of Directors. As of June 30, 2016, the balance was \$63,667. In addition, the Board has committed \$125,000 for future capital needs and \$27,683 for the JROTC program as of June 30, 2016.

NOTE 10 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 19, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges to school districts	\$ 1,880,365	\$ 1,880,365	\$ 1,787,037	\$ (93,328)
State aid	3,839,079	3,769,722	3,905,688	135,966
Federal aid	208,405	208,405	147,098	(61,307)
Food service	80,000	80,000	77,300	(2,700)
Cadet fees	72,600	72,600	74,885	2,285
Earnings on cash and investments	-	-	49,829	49,829
Contributions	470,263	539,620	595,404	55,784
TOTAL REVENUES	<u>6,550,712</u>	<u>6,550,712</u>	<u>6,637,241</u>	<u>86,529</u>
EXPENDITURES				
Current:				
Salaries	2,858,528	2,858,528	2,847,305	11,223
Benefits and employment costs	1,302,809	1,302,809	1,376,798	(73,989)
Contractual services	295,455	300,955	135,840	165,115
Travel	3,000	3,000	5,318	(2,318)
Communications	8,977	8,977	5,368	3,609
Public utility services	101,000	101,000	100,511	489
Insurance	25,000	25,000	25,246	(246)
Land/building/facilities	13,600	11,600	51,880	(40,280)
Transportation	394,579	386,579	384,561	2,018
Repairs and maintenance	57,250	57,250	68,978	(11,728)
Supplies and materials	335,319	335,319	298,307	37,012
Capital outlays:				
Property	95,000	95,000	160,501	(65,501)
Equipment	11,000	11,000	3,888	7,112
Debt service:				
Principal	220,000	220,000	820,000	(600,000)
Interest	673,294	673,294	672,488	806
Financing costs	28,750	33,250	8,350	24,900
TOTAL EXPENDITURES	<u>6,423,561</u>	<u>6,423,561</u>	<u>6,965,339</u>	<u>(541,778)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>127,151</u>	<u>127,151</u>	<u>(328,098)</u>	<u>(455,249)</u>
OTHER FINANCING SOURCES (USES)				
Contingency	(127,151)	(127,151)	-	127,151
TOTAL OTHER FINANCING USES	<u>(127,151)</u>	<u>(127,151)</u>	<u>-</u>	<u>127,151</u>
NET CHANGE IN FUND BALANCE	-	-	(328,098)	(328,098)
FUND BALANCE, BEGINNING OF YEAR	<u>3,299,865</u>	<u>3,299,865</u>	<u>3,299,865</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 3,299,865</u>	<u>\$ 3,299,865</u>	<u>\$ 2,971,767</u>	<u>\$ (328,098)</u>

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

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
School's proportion of the net pension liability	0.1418%	0.1424%
School's proportion of the net pension liability - dollar value	\$ 943,136	\$ 524,175
School's covered employee payroll	\$ 2,643,954	\$ 2,603,839
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	35.67%	20.13%
Plan fiduciary net position as a percentage of the total pension liability	92.67%	95.80%

Note: The above information is provided 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.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL CONTRIBUTIONS**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 266,831	\$ 252,762
Contributions in relation to the contractually required contribution	<u>266,831</u>	<u>252,762</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 2,785,292	\$ 2,643,954
Contributions as a percentage of covered-employee payroll	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.

SUPPLEMENTARY SECTION

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2016**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Total</u>
ASSETS				
Cash and pooled cash	\$ 83,468	\$2,081,958	\$ -	\$2,165,426
Investments	-	63,667	-	63,667
Accounts receivable	-	64,416	-	64,416
Due from other funding sources	-	-	45	45
TOTAL ASSETS	<u><u>\$ 83,468</u></u>	<u><u>\$2,210,041</u></u>	<u><u>\$ 45</u></u>	<u><u>\$2,293,554</u></u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable	\$ 8,808	\$ 6,642	\$ 45	\$ 15,495
Accrued salaries and employment costs	-	684,270	-	684,270
Due to other funding sources	-	45	-	45
TOTAL LIABILITIES	<u><u>8,808</u></u>	<u><u>690,957</u></u>	<u><u>45</u></u>	<u><u>699,810</u></u>
FUND BALANCES:				
Committed	-	216,350	-	216,350
Unassigned	74,660	1,302,734	-	1,377,394
TOTAL FUND BALANCES	<u><u>74,660</u></u>	<u><u>1,519,084</u></u>	<u><u>-</u></u>	<u><u>1,593,744</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 83,468</u></u>	<u><u>\$2,210,041</u></u>	<u><u>\$ 45</u></u>	<u><u>\$2,293,554</u></u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	State Allocation	Local Funding	Federal Funding	Total
REVENUES				
Charges to school districts	\$ -	\$ 1,787,037	\$ -	\$ 1,787,037
State aid	3,905,688	-	-	3,905,688
Federal aid	-	-	147,098	147,098
Food service	-	77,300	-	77,300
Cadet fees	-	74,885	-	74,885
Earnings on cash and investments	-	17,404	-	17,404
Contributions	-	446,419	-	446,419
TOTAL REVENUES	<u>3,905,688</u>	<u>2,403,045</u>	<u>147,098</u>	<u>6,455,831</u>
EXPENDITURES				
Current:				
Instructional services	3,742,206	692,480	147,098	4,581,784
Operation and maintenance of facilities	105,963	118,743	-	224,706
Transportation	7,944	376,617	-	384,561
Food service	-	56,664	-	56,664
Capital outlays:				
Property	50,075	-	-	50,075
Equipment	3,888	-	-	3,888
TOTAL EXPENDITURES	<u>3,910,076</u>	<u>1,244,504</u>	<u>147,098</u>	<u>5,301,678</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(4,388)</u>	<u>1,158,541</u>	<u>-</u>	<u>1,154,153</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(1,507,930)	-	(1,507,930)
TOTAL OTHER FINANCING USES	<u>-</u>	<u>(1,507,930)</u>	<u>-</u>	<u>(1,507,930)</u>
NET CHANGE IN FUND BALANCES	(4,388)	(349,389)	-	(353,777)
FUND BALANCES, BEGINNING OF YEAR	<u>79,048</u>	<u>1,868,473</u>	<u>-</u>	<u>1,947,521</u>
FUND BALANCES, END OF YEAR	<u>\$ 74,660</u>	<u>\$ 1,519,084</u>	<u>\$ -</u>	<u>\$ 1,593,744</u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL
 SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016**

EXPENDITURES

Current:

Salaries	\$ 2,847,305
Benefits and employment costs	1,376,798
Travel	5,318
Contractual services	135,840
Communications	5,368
Public utility services	100,511
Insurance	25,246
Land/building/facilities	51,880
Transportation	384,561
Repairs and maintenance	68,978
Supplies and materials	298,307

Capital outlays:

Property	160,501
Equipment	3,888

Debt service:

Principal	820,000
Interest	672,488
Financing costs	8,350

TOTAL EXPENDITURES

\$ 6,965,339

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 19, 2016

Board of Directors
Delaware Military Academy Charter School
Wilmington, 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, each major fund, and the aggregate remaining fund information of the Delaware Military Academy Charter School ("the School"), Wilmington, Delaware, as of and for the year ended June 30, 2016, 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 19, 2016.

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
Delaware Military Academy 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 controls 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.

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