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

**FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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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 - 12
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
Statements of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	18
Statements of Fiduciary Net Position - Agency Fund	19
Notes to Financial Statements	20 - 37
REQUIRED SUPPLEMENTARY INFORMATION SECTION	
Budgetary Comparison Schedule – General Fund	38
Schedule of the School's Proportionate Share of the Net Pension Liability	39
Schedule of School Contributions	40

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	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund	42
Schedule of Expenditures by Natural Classification - Governmental Funds	43
SINGLE AUDIT INFORMATION	
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>	44 - 45
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	46 - 48
Schedule of Expenditures of Federal Awards	49
Notes to Schedule of Expenditures of Federal Awards	50
Schedule of Findings and Recommendations	51 - 53
Corrective Action Plan	54

## INDEPENDENT AUDITOR'S REPORT

September 18, 2017

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, 2017, 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  
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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2016 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 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 - 12, budgetary comparison schedule - general fund on page 38, schedule of the School's proportionate share of the net pension liability on page 39, and schedule of School contributions on page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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

Board of Directors  
Delaware Military Academy Charter School

additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, schedule of expenditures by natural classification - governmental funds, and the schedule of expenditures of federal awards 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, schedule of expenditures by natural classification - governmental funds, and the schedule of expenditures of federal awards 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 18, 2017, 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, 2017**

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, 2017, which is the School's fourteenth 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 \$4,149,157, and general revenues accounted for \$6,227,763 or 56 percent of total revenues. Capital contributions received as part of the School's capital campaign accounted for \$4,148,699 or 37 percent of total revenues.

Significant construction began during fiscal year 2017 on a new monolithic dome building that will house classrooms, staff offices, and sports facilities, and resulted in additions to construction-in-progress of \$4,536,628. This project is scheduled to be completed and placed in service early in fiscal year 2018. The construction is funded in part by the issuance of bonds during the year totaling \$5,500,000, of which \$2,872,542 was drawn down and expended by year end. These bonds are expected to be refinanced by a loan from the United States Department of Agriculture as part of the Community Facilities Loans and Grants program in November 2019. In addition, the School has also received a charitable pledge in the amount of \$2,500,000 from a local community member which will be used to pay down the balance of the loan incurred during the construction process.

The School reported net position as of June 30, 2017 in the amount of \$3,701,106.

**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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2017**

**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.

***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, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,701,106 at the close of the fiscal year. A comparative net position analysis of fiscal years 2016 and 2017 follows:

**Table 1  
NET POSITION**

	Governmental Activities	
	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current and Other Assets:		
Cash and pooled cash	\$ 2,656,197	\$ 2,600,539
Investments	907,732	1,021,603
Accounts and pledges receivable	400,538	138,139
Loan proceeds receivable	1,083,525	-
Total Current Assets	<u>5,047,992</u>	<u>3,760,281</u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2017**

**Table 1  
NET POSITION**

(cont'd)	Governmental Activities	
	2017	2016
Noncurrent Assets:		
Land and land improvements	3,007,540	3,007,540
Construction-in-progress	4,647,054	110,426
Capital assets, net of depreciation	8,022,144	8,212,156
Pledges receivable	2,400,000	-
Due from State of Delaware	478,788	405,896
Total Noncurrent Assets	18,555,526	11,736,018
Deferred Outflows of Resources:		
Deferred pension contributions	272,738	266,831
Deferred outflows - pension	943,488	24,974
Total Deferred Outflows of Resources	1,216,226	291,805
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>24,819,744</b>	<b>15,788,104</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
Current Liabilities:		
Accounts payable	1,090,847	30,521
Accrued salaries and related costs	743,293	684,270
Accrued interest payable	221,235	216,581
Bonds payable, net	188,683	178,683
Total Current Liabilities	2,244,058	1,110,055
Noncurrent Liabilities:		
Compensated absences	478,788	405,896
Bonds payable, net	16,146,729	13,462,870
Net pension liability	2,200,789	943,136
Total Noncurrent Liabilities	18,826,306	14,811,902
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows – pension	48,274	314,198
Total Deferred Inflows of Resources	48,274	314,198
NET POSITION (DEFICIT):		
Net investment in capital assets	221,422	(988,307)
Restricted	942,596	1,378,023
Unrestricted (deficit)	2,537,088	(837,767)
<b>TOTAL NET POSITION (DEFICIT)</b>	<b>\$ 3,701,106</b>	<b>\$ (448,051)</b>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2017**

**Table 2  
CHANGES IN NET POSITION**

	Governmental Activities	
	2017	2016
<b>REVENUES</b>		
General revenue:		
Charges to school districts	\$ 1,956,882	\$ 1,787,037
Payments from primary government	4,236,208	3,948,485
Earnings on cash and investments	34,673	49,829
Program revenue:		
Charges for services	158,790	152,185
Operating grants and contributions	544,003	816,225
Capital grants and contributions	4,148,699	-
<b>TOTAL REVENUES</b>	<b>11,079,255</b>	<b>6,753,761</b>
<b>EXPENSES</b>		
Instructional services	4,970,496	4,553,816
Support services:		
Operation and maintenance of facilities	683,242	559,904
Transportation	357,919	384,561
Food service	60,003	56,664
Interest on long-term debt	662,501	730,025
Financing costs	195,937	-
<b>TOTAL EXPENSES</b>	<b>6,930,098</b>	<b>6,284,970</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 4,149,157</b>	<b>\$ 468,791</b>

***Governmental Activities***

Net position of the School's governmental activities increased by \$4,149,157.

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.

	2017		2016	
	Total Cost	Net Cost (Revenue)	Total Cost	Net Cost
<i>Governmental Activities</i>				
Instructional services	\$ 4,970,496	\$ 4,426,493	\$ 4,553,816	\$ 3,737,591
Support services:				
Operation and maintenance of facilities	683,242	(3,542,632)	559,904	485,019
Transportation	357,919	357,919	384,561	384,561
Food service	60,003	(21,612)	56,664	(20,636)

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2017**

	2017		2016	
	Total Cost	Net Cost (Revenue)	Total Cost	Net Cost
(cont'd)				
Interest on long-term debt	662,501	662,501	730,025	730,025
Financing costs	195,937	195,937	-	-
Total Expenses	<u>\$ 6,930,098</u>	<u>\$ 2,078,606</u>	<u>\$ 6,284,970</u>	<u>\$ 5,316,560</u>

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$2,078,606 of support. The capital contributions in the current year, which totaled \$4,418,699, must all be spent on facilities and, therefore, are not available to cover the operating costs of the School.

**THE SCHOOL'S FUNDS**

The School's governmental funds (as presented on the balance sheet) as of June 30, 2017 reported a combined fund balance of \$2,813,314 compared to last year's total fund balance of \$2,971,767.

***Governmental Funds***

The School's fund balances decreased overall due largely to the School utilizing available reserves to help fund the construction of the monolithic dome building, and limit the amount of proceeds required to be drawn down from the construction loan. 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	
	2017	2016
REVENUES		
Charges to school districts	\$ 1,956,882	\$ 1,787,037
State aid	4,163,316	3,905,688
Federal aid	117,257	147,098
Food service	81,615	77,300
Cadet fees	77,175	74,885
Earnings on cash and investments	34,673	49,829
Contributions	1,848,630	595,404
TOTAL REVENUES	<u>8,279,548</u>	<u>6,637,241</u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2017**

**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

(cont'd)	Total Governmental Funds	
	2017	2016
EXPENDITURES		
Current:		
Instructional services	4,805,437	4,581,784
Operation and maintenance of facilities	399,840	277,103
Transportation	357,919	384,561
Food service	60,003	56,664
Capital outlays:		
Property	4,615,967	160,501
Equipment	38,910	3,888
Debt service:		
Principal	175,000	820,000
Interest	661,530	672,488
Financing costs	195,937	8,350
TOTAL EXPENDITURES	11,310,543	6,965,339
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(3,030,995)	(328,098)
OTHER FINANCING SOURCES (USES)		
Proceeds from debt issuance	2,872,542	-
TOTAL OTHER FINANCING SOURCES	2,872,542	-
NET CHANGE IN FUND BALANCES	(158,453)	(328,098)
FUND BALANCES, BEGINNING OF YEAR	2,971,767	3,299,865
FUND BALANCES, END OF YEAR	\$ 2,813,314	\$ 2,971,767

The increase in revenues for the year was due to largely to the School's capital campaign, which resulted in \$1,421,884 of contributions being recorded in the Capital Projects Fund. Charges to school districts and state aid also increased slightly from the prior year. Other revenues were relatively consistent with the prior year.

Expenditures overall exceeded revenues and other financing sources during the fiscal year, resulting in a \$158,453 decrease in fund balances.

**GENERAL FUND BUDGET INFORMATION**

The School's general fund budget is prepared in accordance with the modified accrual basis of accounting. The School may amend its revenue and expenditure estimates periodically due to changing conditions. The budget is presented as amended.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2017**

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 38.

***Revenues***

State Aid

A favorable variance of \$41,583 is attributed to increases in the amounts granted from the State for rising benefit and other personnel costs, as well as conservative budgeting practices.

Federal Aid

An unfavorable variance of \$59,365 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 \$34,673 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

An unfavorable variance of \$18,918 is attributed to the School's annual fund drive generating lower contributions than in prior years or the expected amount due to members of the community also contributing to the School's capital campaign (recorded in the Capital Projects fund). This resulted in community members donating to only one of the two campaigns, or donating a lesser amount than the amount donated in prior years.

***Expenditures***

Salaries

An unfavorable variance of \$25,639 is attributed to EPER, stipends, and other miscellaneous salaries being greater than expected.

Contractual Services

A favorable variance of \$107,463 is attributed to the School's careful management of its costs for professional services and other related expenses.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2017**

Public Utilities Services

A favorable variance of \$21,794 is attributed to the School's careful management of its costs, and conservative budgeting practices for the cost of utilities.

Transportation

An unfavorable variance of \$32,919 is attributed to the overall number and cost of transportation for athletic events, field trips, and other extracurricular activities exceeding the expected amount during the year.

Repairs and Maintenance

An unfavorable variance of \$33,993 is attributed to an increase in the number and amount of miscellaneous repair costs for the School's buildings throughout the year. A number of miscellaneous improvements that were not considered to be capital in nature were also performed during the year, and were recorded as repair and maintenance costs.

Supplies and Materials

An unfavorable variance of \$25,213 is attributed to the need for miscellaneous instructional and other supplies exceeding the amount budgeted for the year. The School is committed to ensuring that students have the required instructional materials to further their education.

Capital Outlay - Equipment

An unfavorable variance of \$35,900 is attributed to the purchase of equipment using General Fund funds that were not initially budgeted for.

**CAPITAL ASSETS**

The School has \$15,676,738 invested in capital assets net of depreciation. Acquisitions totaled \$4,654,877, of which \$4,536,628 related to the construction of the new monolithic dome building. Depreciation expense for the year totaled \$308,261. Other than the amount incurred for construction, significant capital additions included the installation of a closed circuit television system and related security improvements (\$79,339), and miscellaneous furniture totaling \$36,912. 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 \$16,335,412. The majority of this debt is a direct result of purchasing the School facility and the construction of the new monolithic dome building.

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)  
JUNE 30, 2017**

**FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS**

Fiscal year 2017 was the fourteenth year of operation as a functioning school. During fiscal year 2017, the School completed a significant portion of the construction on the monolithic dome building, which will house student classrooms, staff offices, and an athletics center. This building will be completed and placed in service in early fiscal year 2018. The dome structure will allow the School to increase its enrollment, and will also allow the School to host a wider range of athletic and other extracurricular events. The increase in enrollment will increase revenues from both local school districts and the State of Delaware.

**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, 2017 AND 2016**

	Governmental Activities	
	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS:</b>		
Cash and pooled cash	\$ 2,656,197	\$ 2,600,539
Investments	907,732	1,021,603
Accounts receivable	-	64,416
Loan proceeds receivable	1,083,525	-
Pledges receivable	400,538	73,723
Total Current Assets	5,047,992	3,760,281
<b>NONCURRENT ASSETS:</b>		
Land and land improvements	3,007,540	3,007,540
Construction-in-progress	4,647,054	110,426
Capital assets, net of depreciation	8,022,144	8,212,156
Pledges receivable	2,400,000	-
Due from State of Delaware	478,788	405,896
Total Noncurrent Assets	18,555,526	11,736,018
<b>TOTAL ASSETS</b>	23,603,518	15,496,299
 <b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred pension contributions	272,738	266,831
Deferred outflows - pension	943,488	24,974
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	1,216,226	291,805
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$24,819,744	\$ 15,788,104
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,090,847	\$ 30,521
Accrued salaries and related costs	743,293	684,270
Accrued interest payable	221,235	216,581
Bonds payable, net	188,683	178,683
Total Current Liabilities	2,244,058	1,110,055
<b>NONCURRENT LIABILITIES:</b>		
Compensated absences	478,788	405,896
Bonds payable, net	16,146,729	13,462,870
Net pension liability	2,200,789	943,136
Total Noncurrent Liabilities	18,826,306	14,811,902
<b>TOTAL LIABILITIES</b>	21,070,364	15,921,957
 <b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred inflows - pension	48,274	314,198
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	48,274	314,198
 <b>NET POSITION (DEFICIT):</b>		
Net investment in capital assets	221,422	(988,307)
Restricted	942,596	1,378,023
Unrestricted (deficit)	2,537,088	(837,767)
<b>TOTAL NET POSITION (DEFICIT)</b>	3,701,106	(448,051)
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>	\$24,819,744	\$ 15,788,104

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, 2017**  
**(With Summarized Comparative Data for the Year Ended June 30, 2016)**

	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Totals	2017
				2016
<b>GOVERNMENTAL ACTIVITIES</b>				
Instructional services	\$ (4,970,496)	\$ 544,003	\$ -	\$ (3,737,591)
Support services:				
Operation and maintenance of facilities	(683,242)	-	4,148,699	(485,019)
Transportation	(357,919)	-	-	(384,561)
Food service	(60,003)	81,615	-	20,636
Interest on long-term debt	(662,501)	-	-	(730,025)
Financing costs	(195,937)	-	-	-
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ (6,930,098)</b>	<b>\$ 544,003</b>	<b>\$ 4,148,699</b>	<b>(5,316,560)</b>
<b>GENERAL REVENUES</b>				
Charges to school districts				1,787,037
Payments from primary government				3,948,485
Earnings on cash and investments				49,829
<b>TOTAL GENERAL REVENUES</b>				<b>5,785,351</b>
<b>CHANGE IN NET POSITION</b>				468,791
<b>NET POSITION (DEFICIT), BEGINNING OF YEAR</b>				<b>(916,842)</b>
<b>NET POSITION (DEFICIT), END OF YEAR</b>				<b>\$ (448,051)</b>

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

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2017  
(With Summarized Comparative Data for June 30, 2016)**

	General Fund	Debt Service Fund	Capital Projects Fund	Totals
				2017
				2016
<b>ASSETS</b>				
Cash and pooled cash	\$ 2,550,783	\$ 63,534	\$ 41,880	\$ 2,656,197
Investments	70,550	837,182	-	907,732
Accounts receivable	-	-	-	-
Loan proceeds receivable	-	-	1,083,525	1,083,525
Pledges receivable	-	-	2,800,538	2,800,538
<b>TOTAL ASSETS</b>	<u>\$ 2,621,333</u>	<u>\$ 900,716</u>	<u>\$ 3,925,943</u>	<u>\$ 7,447,992</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 7,322	-	\$ 1,083,525	\$ 1,090,847
Accrued salaries and related benefits	743,293	-	-	743,293
Total Liabilities	<u>750,615</u>	<u>-</u>	<u>1,083,525</u>	<u>1,834,140</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable revenue - pledges	-	-	2,800,538	2,800,538
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>	<u>2,800,538</u>	<u>2,800,538</u>
<b>FUND BALANCES:</b>				
Committed	306,331	-	-	306,331
Restricted	-	900,716	41,880	942,596
Unassigned	1,564,387	-	-	1,564,387
Total Fund Balances	<u>1,870,718</u>	<u>900,716</u>	<u>41,880</u>	<u>2,813,314</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 2,621,333</u>	<u>\$ 900,716</u>	<u>\$ 3,925,943</u>	<u>\$ 7,447,992</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, 2017**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 2,813,314

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. 15,676,738

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 478,788

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. 2,800,538

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	\$ (478,788)	
Accrued interest payable	(221,235)	
Bonds payable	(16,335,412)	
Net pension liability	<u>(2,200,789)</u>	(19,236,224)

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	272,738	
Deferred outflows - pension	943,488	
Deferred inflows	<u>(48,274)</u>	<u>1,167,952</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 3,701,106

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, 2017**  
**(With Summarized Comparative Data for the Year Ended June 30, 2016)**

	General Fund	Debt Service Fund	Capital Projects Fund	Totals	
				2017	2016
<b>REVENUES</b>					
Charges to school districts	\$ 1,956,882	\$ -	\$ -	\$ 1,956,882	\$ 1,787,037
State aid	4,163,316	-	-	4,163,316	3,905,688
Federal aid	117,257	-	-	117,257	147,098
Food service	81,615	-	-	81,615	77,300
Cadet fees	77,175	-	-	77,175	74,885
Earnings on cash and investments	34,673	-	-	34,673	49,829
Contributions	426,746	-	1,421,884	1,848,630	595,404
<b>TOTAL REVENUES</b>	<b>6,857,664</b>	<b>-</b>	<b>1,421,884</b>	<b>8,279,548</b>	<b>6,637,241</b>
<b>EXPENDITURES</b>					
Current:					
Instructional services	4,805,437	-	-	4,805,437	4,581,784
Operation and maintenance of facilities	239,144	-	160,696	399,840	277,103
Transportation	357,919	-	-	357,919	384,561
Food service	60,003	-	-	60,003	56,664
Capital outlays:					
Property	79,339	-	4,536,628	4,615,967	160,501
Equipment	38,910	-	-	38,910	3,888
Debt service:					
Principal	-	175,000	-	175,000	820,000
Interest	-	651,640	9,890	661,530	672,488
Financing costs	-	-	195,937	195,937	8,350
<b>TOTAL EXPENDITURES</b>	<b>5,580,752</b>	<b>826,640</b>	<b>4,903,151</b>	<b>11,310,543</b>	<b>6,965,339</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,276,912</b>	<b>(826,640)</b>	<b>(3,481,267)</b>	<b>(3,030,995)</b>	<b>(328,098)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	846,025	404,526	1,250,551	1,767,847
Transfers out	(999,938)	(250,613)	-	(1,250,551)	(1,767,847)
Proceeds from debt issuance	-	-	2,872,542	2,872,542	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(999,938)</b>	<b>595,412</b>	<b>3,277,068</b>	<b>2,872,542</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>276,974</b>	<b>(231,228)</b>	<b>(204,199)</b>	<b>(158,453)</b>	<b>(328,098)</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>1,593,744</b>	<b>1,131,944</b>	<b>246,079</b>	<b>2,971,767</b>	<b>3,299,865</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 1,870,718</b>	<b>\$ 900,716</b>	<b>\$ 41,880</b>	<b>\$ 2,813,314</b>	<b>\$ 2,971,767</b>

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, 2017**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (158,453)

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 capital outlays exceeded depreciation expense in the current period.

Capital outlays	\$ 4,654,877	
Depreciation expense	<u>(308,261)</u>	4,346,616

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. 2,799,707

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	175,000	
Proceeds from issuance of long-term debt	(2,872,542)	
Amortization of bond premium	3,683	
Accrued interest on bonds payable	<u>(4,654)</u>	(2,698,513)

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		(72,892)
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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 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. (67,308)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 4,149,157

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, 2017 AND 2016**

	Student Activities Fund	
	2017	2016
ASSETS:		
Cash and cash equivalents	\$ 32,673	\$ 34,666
<b>TOTAL ASSETS</b>	<b>\$ 32,673</b>	<b>\$ 34,666</b>
LIABILITIES AND NET POSITION:		
LIABILITIES		
Other current liabilities	\$ 32,673	\$ 34,666
<b>TOTAL LIABILITIES</b>	<b>32,673</b>	<b>34,666</b>
NET POSITION	-	-
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 32,673</b>	<b>\$ 34,666</b>

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 2017 was the fourteenth 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.

##### Blended Component Unit

Seahawk CLS LLC is a non-profit limited liability company established in April 2017 by the School for the purpose of supporting the School's future operations. The School is the sole corporate member of Seahawk CLS LLC. In accordance with the requirements of GASB Statement No. 80, "Blending Requirements for Certain Component Units," Seahawk CLS LLC is reported in the

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

School's financial statements as a blended component unit. As of June 30, 2017, Seahawk CLS LLC had no reportable activity; therefore, no information for this component unit is included in the School's financial statements.

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.

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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

*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.

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, 2017.

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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

**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.

Fund Equity

Fund balance is 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 or the Commandant have provided otherwise in their commitment or assignment actions.

Net Position

Net position represents the difference between assets and deferred outflows of resources and 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

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

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.

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 of 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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

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, 2016 basic financial statements to be comparative with the current year presentation.

NOTE 2 CASH, POOLED CASH, AND INVESTMENTS

***Deposits***

At June 30, 2017, the School had a cash and pooled cash balance of \$2,688,870. Of that amount, \$2,550,783 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, 2017, the reported amount of the School's deposits not held with the State Treasurer's Office was \$138,087, and the bank balance was \$138,087, all of which was covered by federal depository insurance.

***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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

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, 2017:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 2</u>
Certificates of deposit	\$ 837,182	\$ 837,182
Delaware Community Foundation	<u>70,550</u>	<u>70,550</u>
TOTAL	<u>\$ 907,732</u>	<u>\$ 907,732</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 the Delaware Community Foundation at June 30, 2017 was \$70,550.

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, 2017, 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, 2017, all of the School's certificates of deposit 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.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 3 PLEDGES RECEIVABLE

As of June 30, 2017, the School has unconditional promises to give in the amount of \$2,800,538. The portion of the pledges receivable that have not been collected within sixty days of year-end are not considered to be available, and have been reported as unavailable revenues in the fund level financial statements. Total pledges receivable are expected to be collected as follows:

Due in:	
Less than one year	\$ 400,538
One to five years	400,000
More than five years	<u>2,000,000</u>
Total pledges receivable	<u>\$2,800,538</u>

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Increase	Disposals	Ending Balance
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land and land improvements	\$ 3,007,540	\$ -	\$ -	\$ 3,007,540
Construction-in-progress	<u>110,426</u>	<u>4,536,628</u>	-	<u>4,647,054</u>
Total Capital Assets Being Depreciated	<u>3,117,966</u>	<u>4,536,628</u>	-	<u>7,654,594</u>
Capital assets being depreciated:				
Buildings	11,315,306	79,339	-	11,394,645
Equipment	275,749	1,998	-	277,747
Furniture and fixtures	<u>248,329</u>	<u>36,912</u>	-	<u>285,241</u>
Total Capital Assets Being Depreciated	<u>11,839,384</u>	<u>118,249</u>	-	<u>11,957,633</u>
Accumulated depreciation:				
Buildings	(3,179,140)	(283,402)	-	(3,462,542)
Equipment	(235,146)	(11,130)	-	(246,276)
Furniture and fixtures	<u>(212,942)</u>	<u>(13,729)</u>	-	<u>(226,671)</u>
Total accumulated depreciation	<u>(3,627,228)</u>	<u>(308,261)</u>	-	<u>(3,935,489)</u>
Total Capital Assets Being Depreciated, Net	<u>8,212,156</u>	<u>(190,012)</u>	-	<u>8,022,144</u>
Governmental Activities Capital Assets, Net	<u>\$11,330,122</u>	<u>\$4,346,616</u>	<u>\$ -</u>	<u>\$15,676,738</u>

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

Depreciation expense was charged to the following activities:

Governmental Activities:

Instructional services	\$ 24,859
Operation and maintenance of facilities	<u>283,402</u>
	<u>\$ 308,261</u>

NOTE 5 LONG-TERM LIABILITIES

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 4.00 to 5.00 percent. The rate was 4.00 percent at June 30, 2017. 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, 2017 was \$646,025.

Under the terms of the bond agreement, the School is required to maintain a bank account with a trustee. As of June 30, 2017, these funds held with the trustee totaled \$900,716, 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.

On November 4, 2016, the School issued \$5,500,000 of Series of 2016 Revenue Bonds through the Delaware Economic Development Authority for the purpose of funding the construction of a new building. The bonds were purchased by Wilmington Savings and Fund Society, and the Series 2016 Note replaced the bond agreement with the funds to be advanced from time to time to finance the construction of the building. The note bears interest at a fixed rate of 2.98 percent through April 30, 2018, and bears interest at a variable rate beginning May 1, 2018 until the maturity date at a rate equal to 68 percent of the LIBOR rate, plus 3.10 percent, with a maximum of 6.00 percent. The note matures on November 1, 2019. Interest-only payments are due monthly on the first of each month on this note commencing December 1, 2016 through November 1, 2017. This note will be refinanced through a loan received from the United States Department of Agriculture as part of the Community Facilities Loans and Grants program at the maturity date. Interest expense on the note for the year ended June 30, 2017 was \$9,890.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM LIABILITIES (cont'd)

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>
2018	\$ 185,000	\$ 646,025	\$ 827,305
2019	190,000	630,406	820,406
2020	3,072,542	622,119	3,694,661
2021	210,000	613,406	823,406
2022	215,000	604,375	819,375
2023 - 2027	1,135,000	2,885,963	4,020,963
2028 - 2032	1,410,000	2,600,244	4,010,244
2033 - 2037	1,775,000	2,230,553	4,005,553
2038 - 2042	2,250,000	1,736,000	3,986,000
2043 - 2047	2,870,000	1,098,750	3,968,750
2048 - 2050	2,905,000	261,875	3,166,875
Total	<u>\$ 16,217,542</u>	<u>\$ 13,925,996</u>	<u>\$ 30,143,538</u>

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

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u>	<u>Amounts</u>
	<u>07/01/2016</u>			<u>06/30/2017</u>	<u>Due within</u>
					<u>One Year</u>
<i>Governmental Activities</i>					
Bonds payable	\$13,520,000	\$ 2,872,542	\$ 175,000	\$16,217,542	\$ 185,000
Bond premium	121,553	-	3,683	117,870	3,683
Bonds payable, net	13,641,553	2,872,542	178,683	16,335,412	188,683
Compensated absences	405,896	72,892	-	478,788	-
Net pension liability	943,136	1,257,653	-	2,200,789	-
Total	<u>\$14,990,585</u>	<u>\$ 4,203,087</u>	<u>\$ 178,683</u>	<u>\$19,014,989</u>	<u>\$ 188,683</u>

NOTE 6 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 6 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, 2016. 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 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 6 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, 2017, 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, 2017 was \$272,738.

*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 6 PENSION PLAN (cont'd)

At June 30, 2017, the School reported a liability of \$2,200,789 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. 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, 2016, the School's proportion was 0.1460 percent, which was an increase of 0.0042 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School recognized pension expense in the amount of \$340,046. At June 30, 2017, 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	\$ 685,939	\$ -
Changes of assumptions	203,797	-
Changes in proportions	53,752	-
Differences between actual and expected experience	-	48,274
Contributions subsequent to the date of measurement	<u>272,738</u>	<u>-</u>
	<u>\$ 1,216,226</u>	<u>\$ 48,274</u>

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

An amount of \$272,738 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2016 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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>	
2018	\$ 213,340
2019	213,340
2020	213,340
2021	213,340
2022	<u>41,854</u>
	<u>\$ 895,214</u>

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Actuarial Assumptions

The total pension liability as of the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2016. These actuarial valuations used the following actuarial assumptions, applied to all periods:

- Investment return – 7.2 percent, including inflation of 2.5 percent
- Salary increases – 2.5 percent plus merit increases, including inflation of 2.5 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 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.

Mortality rates were based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees, and an adjusted version on 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%	34.0%
International equity	5.7%	14.7%

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Asset Class	Long-term Expected Real Rate of Return	Target Asset Allocation
Fixed income	2.0%	25.0%
Alternative investments	7.8%	20.9%
Cash and equivalents	0.0%	5.4%

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 6.2%	Current Rate Discount Rate 7.2%	1% Increase 8.2%
School's proportionate share of the net pension liability	\$ 3,824,109	\$ 2,200,789	\$ 834,809

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).

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 7 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 8 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.

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 process of constructing a new athletics and academic center. The project commitments and amounts completed are as follows:

	<u>Project Amount</u>	<u>Completed as of 06/30/17</u>	<u>Commitments</u>
Governmental Activities:			
Monolithic dome construction	\$ 6,928,319	\$ 4,544,377	\$ 2,383,942

In addition, the School has incurred \$102,677 in costs related to the projects not under formal contract.

NOTE 9 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School incurred expenditures in excess of appropriations in the following categories for the year ended June 30, 2017:

Salaries	\$	25,639
Travel	\$	3,005
Insurance	\$	58

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 9 EXCESS EXPENDITURES OVER APPROPRIATIONS (cont'd)

Land, building, and facilities	\$	7,795
Transportation	\$	32,919
Repairs and maintenance	\$	33,993
Supplies and materials	\$	25,213
Capital outlay - equipment	\$	35,900

The excess expenditures were funded from the excess of actual revenues over expected amounts as well as expected other financing uses not exceeding their budgeted amount for the year.

See the management's discussion and analysis on pages 4 through 12 for further explanations of the significant variances.

NOTE 10 FUND BALANCES

As of June 30, 2017, fund balances are composed of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Committed:				
Delaware Community Foundation	\$ 70,550	\$ -	\$ -	\$ 70,550
Capital	150,000	-	-	150,000
JROTC	85,781	-	-	85,781
Restricted:				
Capital projects	-	63,534	41,880	105,414
Debt service	-	837,182	-	837,182
Unassigned	<u>1,564,387</u>	-	-	<u>1,564,387</u>
Total Fund Balances	<u>\$ 1,870,718</u>	<u>\$ 900,716</u>	<u>\$ 41,880</u>	<u>\$ 2,813,314</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, 2017, the balance was \$70,550. In addition, the Board has committed \$150,000 for future capital needs and \$85,781 for the JROTC program as of June 30, 2017.

NOTE 11 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 18, 2017, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION SECTION**

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges to school districts	\$ 2,022,529	\$ 1,956,882	\$ 1,956,882	\$ -
State aid	3,946,205	4,121,733	4,163,316	41,583
Federal aid	60,479	176,622	117,257	(59,365)
Food service	80,000	80,000	81,615	1,615
Cadet fees	73,900	73,900	77,175	3,275
Earnings on cash and investments	-	-	34,673	34,673
Contributions	445,665	445,664	426,746	(18,918)
<b>TOTAL REVENUES</b>	<u>6,628,778</u>	<u>6,854,801</u>	<u>6,857,664</u>	<u>2,863</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	2,938,251	2,975,759	3,001,398	(25,639)
Benefits and employment costs	1,440,462	1,464,435	1,452,853	11,582
Travel	5,000	2,500	5,505	(3,005)
Contractual services	253,701	252,936	145,473	107,463
Communications	7,133	12,787	12,607	180
Public utility services	98,500	102,500	80,706	21,794
Insurance	25,000	25,000	25,058	(58)
Land/building/facilities	13,200	13,200	20,995	(7,795)
Transportation	325,000	325,000	357,919	(32,919)
Repairs and maintenance	48,750	48,750	82,743	(33,993)
Supplies and materials	238,314	252,033	277,246	(25,213)
Capital outlays:				
Property	95,000	95,000	79,339	15,661
Equipment	1,031	3,010	38,910	(35,900)
<b>TOTAL EXPENDITURES</b>	<u>5,489,342</u>	<u>5,572,910</u>	<u>5,580,752</u>	<u>(7,842)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>1,139,436</u>	<u>1,281,891</u>	<u>1,276,912</u>	<u>(4,979)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(961,275)	(962,525)	(999,938)	(37,413)
Contingency	(178,161)	(319,366)	-	319,366
<b>TOTAL OTHER FINANCING USES</b>	<u>(1,139,436)</u>	<u>(1,281,891)</u>	<u>(999,938)</u>	<u>281,953</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	276,974	276,974
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>1,593,744</u>	<u>1,593,744</u>	<u>1,593,744</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 1,593,744</u>	<u>\$ 1,593,744</u>	<u>\$ 1,870,718</u>	<u>\$ 276,974</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>MEASUREMENT DATE</u>	
	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
School's proportion of the net pension liability	0.1460%	0.1418%
School's proportion of the net pension liability - dollar value	\$ 2,200,789	\$ 943,136
School's covered employee payroll	\$ 2,785,292	\$ 2,643,954
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	79.01%	35.67%
Plan fiduciary net position as a percentage of the total pension liability	84.11%	92.67%
		0.1424%
	\$ 524,175	
	\$ 2,603,839	

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, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 272,738	\$ 266,831	\$ 252,762
Contributions in relation to the contractually required contribution	<u>272,738</u>	<u>266,831</u>	<u>252,762</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 2,846,952	\$ 2,785,292	\$ 2,643,954
Contributions as a percentage of covered-employee payroll	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.

**SUPPLEMENTARY SECTION**

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
COMBINING BALANCE SHEET - GENERAL FUND  
JUNE 30, 2017**

	State Allocation	Local Funding	Federal Funding	Total
<b>ASSETS</b>				
Cash and pooled cash	\$ 54,555	\$2,496,228	\$ -	\$2,550,783
Investments	-	70,550	-	70,550
<b>TOTAL ASSETS</b>	<u>\$ 54,555</u>	<u>\$2,566,778</u>	<u>\$ -</u>	<u>\$2,621,333</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 4,990	\$ 2,332	\$ -	\$ 7,322
Accrued salaries and employment costs	-	743,293	-	743,293
<b>TOTAL LIABILITIES</b>	<u>4,990</u>	<u>745,625</u>	<u>-</u>	<u>750,615</u>
<b>FUND BALANCES:</b>				
Committed	-	306,331	-	306,331
Unassigned	49,565	1,514,822	-	1,564,387
<b>TOTAL FUND BALANCES</b>	<u>49,565</u>	<u>1,821,153</u>	<u>-</u>	<u>1,870,718</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 54,555</u>	<u>\$2,566,778</u>	<u>\$ -</u>	<u>\$2,621,333</u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Total</u>
<b>REVENUES</b>				
Charges to school districts	\$ -	\$ 1,956,882	\$ -	\$ 1,956,882
State aid	4,163,316	-	-	4,163,316
Federal aid	-	-	117,257	117,257
Food service	-	81,615	-	81,615
Cadet fees	-	77,175	-	77,175
Earnings on cash and investments	-	34,673	-	34,673
Contributions	-	426,746	-	426,746
<b>TOTAL REVENUES</b>	<u>4,163,316</u>	<u>2,577,091</u>	<u>117,257</u>	<u>6,857,664</u>
<b>EXPENDITURES</b>				
Current:				
Instructional services	3,577,403	1,112,775	115,259	4,805,437
Operation and maintenance of facilities	197,662	41,482	-	239,144
Transportation	332,885	25,034	-	357,919
Food service	-	60,003	-	60,003
Capital outlays:				
Property	79,339	-	-	79,339
Equipment	1,122	35,790	1,998	38,910
<b>TOTAL EXPENDITURES</b>	<u>4,188,411</u>	<u>1,275,084</u>	<u>117,257</u>	<u>5,580,752</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>(25,095)</u>	<u>1,302,007</u>	<u>-</u>	<u>1,276,912</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	(999,938)	-	(999,938)
<b>TOTAL OTHER FINANCING USES</b>	<u>-</u>	<u>(999,938)</u>	<u>-</u>	<u>(999,938)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(25,095)	302,069	-	276,974
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>74,660</u>	<u>1,519,084</u>	<u>-</u>	<u>1,593,744</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 49,565</u>	<u>\$ 1,821,153</u>	<u>\$ -</u>	<u>\$ 1,870,718</u>

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
 SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017**

EXPENDITURES

Current:

Salaries	\$ 3,001,398
Benefits and employment costs	1,452,853
Travel	5,505
Contractual services	193,859
Communications	12,607
Public utility services	80,706
Insurance	33,664
Land/building/facilities	124,699
Transportation	357,919
Repairs and maintenance	82,743
Supplies and materials	277,246

Capital outlays:

Property	4,615,967
Equipment	38,910

Debt service:

Principal	175,000
Interest	661,530
Financing costs	195,937

TOTAL EXPENDITURES

\$ 11,310,543

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 18, 2017

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, 2017, 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 18, 2017.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

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

INDEPENDENT AUDITOR'S  
REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTRC  
OVER COMPLIANCE REQUIRED BY  
THE UNIFORM GUIDANCE

September 18, 2017

Board of Directors  
Delaware Military Academy Charter School  
Wilmington, Delaware

Report on Compliance for Each Major Federal Program

We have audited the Delaware Military Academy Charter School's ("the School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2017. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Board of Directors  
Delaware Military Academy Charter School

### Opinion on the Major Federal Program

In our opinion, the Delaware Military Academy Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

### Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and recommendations as item 2017-001. Our opinion on the major federal program is not modified with respect to this matter.

The School's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and recommendations. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Report on Internal Control Over Compliance

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

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

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

Board of Directors  
Delaware Military Academy Charter School

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

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

**DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR PROJECT TITLE	SOURCE CODE	FEDERAL CFDA NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED REVENUE 07/01/16	REVENUE RECOGNIZED	EXPENDITURES	ACCRUED REVENUE 06/30/17	PASSED THROUGH TO SUB-RECIPIENTS	OUTSTANDING LOAN BALANCE
U.S. Department of Agriculture Community Facilities Loans and Grants	D	10.766	12/21/16-11/01/19	\$ 5,500,000	\$ 1,789,017	\$ -	\$ 2,872,542	\$ 2,872,542	\$ 1,083,525	\$ -	\$ 2,872,542
Total U.S. Department of Agriculture					1,789,017	-	2,872,542	2,872,542	1,083,525	-	2,872,542
U.S. Department of Education Passed through the Delaware Department of Education											
Title II - Improving Teacher Quality	I	84.367	07/01/14-11/30/16	11,437	6,711	45	6,666	6,666	-	-	-
Title II - Improving Teacher Quality	I	84.367	07/01/15-11/30/17	14,090	5,717	-	5,717	5,717	-	-	-
Total CFDA #84.367					12,428	45	12,383	12,383	-	-	-
Title I - Grants to Local Education Agencies	I	84.010	07/01/14-11/30/16	23,834	1,595	-	1,595	1,595	-	-	-
Title I - Grants to Local Education Agencies	I	84.010	07/01/15-11/30/17	20,250	20,250	-	20,250	20,250	-	-	-
Title I - Grants to Local Education Agencies	I	84.010	07/01/16-11/30/18	17,202	4,986	-	4,986	4,986	-	-	-
Total CFDA #84.010					26,831	-	26,831	26,831	-	-	-
I.D.E.A.	I	84.027	07/01/14-11/30/16	82,686	6,616	-	6,616	6,616	-	-	-
I.D.E.A.	I	84.027	07/01/15-11/30/17	77,399	5,583	-	5,583	5,583	-	-	-
I.D.E.A.	I	84.027	07/01/16-11/30/18	80,080	60,027	-	60,027	60,027	-	-	-
Total CFDA #84.027					72,226	-	72,226	72,226	-	-	-
Career and Technical Education	I	84.048	07/01/14-11/30/16	5,299	17	-	17	17	-	-	-
Career and Technical Education	I	84.048	07/01/15-11/30/17	5,617	5,617	-	5,617	5,617	-	-	-
Career and Technical Education	I	84.048	07/01/16-11/30/18	5,337	183	-	183	183	-	-	-
Total CFDA #84.048					5,817	-	5,817	5,817	-	-	-
Total U.S. Department of Education					117,302	45	117,257	117,257	-	-	-
TOTAL FEDERAL AWARDS					\$ 1,906,319	\$ 45	\$ 2,989,799	\$ 2,989,799	\$ 1,083,525	\$ -	\$ 2,872,542

**SOURCE CODE:**

- D - Direct Funding
- I - Indirect Funding

DELAWARE MILITARY ACADEMY CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A BASIS OF ACCOUNTING

The School uses the modified accrual method of recording transactions. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE B FEDERAL EXPENDITURES

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

NOTE C INDIRECT COST RATE

The School has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. For the year ended June 30, 2017, there were no indirect costs included in the schedule of expenditures of federal awards.

NOTE D LOAN BALANCES INVOLVING FEDERAL FUNDS

On November 4, 2016, the School issued \$5,500,000 of Series of 2016 Revenue Bonds through the Delaware Economic Development Authority for the purpose of funding the construction of a new building. The bonds bear interest at a fixed rate of 2.98 percent through April 30, 2018, and bear interest at a variable rate beginning May 1, 2018 until the maturity date at a rate equal to 68 percent of the LIBOR rate, plus 3.10 percent, with a maximum of 6.00 percent. The bonds mature on November 1, 2019. Interest-only payments are due monthly on the first of each month on this bond commencing December 1, 2016 through November 1, 2017. This bond will be refinanced through a loan received from the United States Department of Agriculture as part of the Community Facilities Loans and Grants program at the maturity date.

**SCHEDULE OF  
FINDINGS AND RECOMMENDATIONS**

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**PART A - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance under the Uniform Guidance?

Yes  No

Identification of major programs:

CFDA Number  
10.766

Name of Federal Program or Cluster  
Community Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes  No

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)

**PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

**PART C - FINDINGS RELATED TO FEDERAL AWARDS**

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2017-001 – WRITTEN POLICIES AND PROCEDURES

Finding

During our current year audit, we noted that the School has not developed and implemented certain written policies governing the School's procedures and controls for the administration of its federal awards. As outlined in the Uniform Guidance, the School must develop and implement procedures for the financial management of its awards (2 CFR 200.302), its policies and procedures governing cash management of federal awards (2 CFR 200.305), its conflict of interest policy (2 CFR 200.112), its policies and procedures for determining the allowability of costs and activities applied to its federal award programs (2 CFR 200.403), its policy for reimbursing travel costs (2 CFR 200.474), and its policy for the procurement of goods and services (2 CFR 200.318).

While we noted that the School had developed a system of internal controls and procedures that provided for the proper administration and reporting of its federal awards, it had not formally documented these procedures and policies in a written format.

DELAWARE MILITARY ACADEMY CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Recommendation

We recommend that the School formalize its policies and procedures for the areas noted above in a written format, and that these policies and procedures be properly approved by the Board of Directors.

Management's Response

See management's corrective action plan.