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**FIRST STATE MONTESSORI ACADEMY, INC.**  
**(A Component Unit of the State of Delaware)**  
**WILMINGTON, DELAWARE**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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FIRST STATE MONTESSORI ACADEMY, INC.  
(A Component Unit of the State of Delaware)

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FIRST STATE MONTESSORI ACADEMY, INC.  
(A Component Unit of the State of Delaware)

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INDEPENDENT AUDITOR'S REPORT

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September 22, 2016

Board of Directors  
First State Montessori Academy, Inc.  
Wilmington, Delaware

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of First State Montessori Academy, Inc. ("the School"), Wilmington, Delaware, a component unit of the State of Delaware, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Board of Directors  
First State Montessori Academy, Inc.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of First State Montessori Academy, Inc., Wilmington, Delaware, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited the First State Montessori Academy's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and the major fund in our report dated September 17, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the budgetary comparison schedule on page 31, the schedule of the School's proportionate share of the net pension liability on page 32, and the schedule of School contributions on page 33 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 - governmental fund; combining statement of revenues, expenditures, and changes in fund balances - governmental fund; and schedule of expenditures by natural classification - governmental fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Directors  
First State Montessori Academy, Inc.

The combining balance sheet - governmental fund; combining statement of revenues, expenditures, and changes in fund balances - governmental fund; and schedule of expenditures by natural classification - governmental fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheet - governmental fund; combining statement of revenues, expenditures, and changes in fund balances - governmental fund; and schedule of expenditures by natural classification - governmental fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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**

**FIRST STATE MONTESSORI ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED  
YEAR ENDED JUNE 30, 2016**

Our discussion and analysis of the School's financial performance provides an overview of the financial activities for the year ended June 30, 2016. Please read it in conjunction with the Independent Auditor's Report on pages 1 - 3 and the School's financial statements, which begin on page 12.

**FINANCIAL HIGHLIGHTS**

Fiscal year 2016 was the School's second year of operations. During the year, the net position of the School increased by \$503,240, or 44.28 percent. Program revenues accounted for \$290,644 or 6.77 percent of total revenues, and the general revenues accounted for \$4,005,072 or 93.23 percent of total revenues. Also, the general fund reported a positive fund balance of \$1,158,369.

**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, which is similar to the accounting used by private sector corporations. All of the year's revenues and expenses are taken into consideration regardless of when the cash is received or paid. These two statements report the School's net position and changes thereof. The change in net position 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 and facility conditions in arriving at their conclusion regarding the overall health of the School.

**REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS**

***Fund Financial Statements***

The fund financial statements of the School's major (and only) fund begin on page 14. These statements provide detailed information about the most significant fund and not the School as a whole. Certain funds are required to be established by State statute, while many other funds may be established by the School to help manage money for particular purposes and compliance with various grant provisions.

***Governmental Funds***

The School's activities are reported in the governmental fund, which focus on how money flows into and out of this fund and the balances left at year-end available for spending in future periods. This fund is reported using an accounting method called modified accrual accounting, which measures

**FIRST STATE MONTESSORI ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2016**

cash and other financial assets that can readily be converted to cash. The statements of the governmental fund 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 less financial resources available to spend in the near future to finance the School's programs. The difference between governmental activities (reported in the statement of net position and the statement of activities) and the governmental fund is reconciled in the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,639,686 at the close of the fiscal year. The largest portion of the School's total assets is cash and pooled cash (73.05 percent); other assets (7.69 percent) and capital assets net of depreciation (19.26 percent) make up the remaining asset total. The School uses capital assets to provide services; consequently, capital assets are not available for future spending.

A comparative net position analysis of fiscal years 2015 and 2016 follows:

**Table 1  
NET POSITION**

	Governmental Activities	
	2016	2015
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current and Other Assets:		
Cash and pooled cash	\$ 1,480,310	\$ 1,006,782
Other current assets	48,070	24,630
Total Current Assets	<u>1,528,380</u>	<u>1,031,412</u>
Noncurrent Assets:		
Security deposit	107,705	57,704
Capital assets, net of depreciation	390,315	270,007
Total Noncurrent Assets	<u>498,020</u>	<u>327,711</u>
Deferred Outflows of Resources:		
Deferred pension contributions	143,239	103,154
Deferred outflows - pension	457,913	9,750
Total Deferred Outflows of Resources	<u>601,152</u>	<u>112,904</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>2,627,552</u>	<u>1,472,027</u>

**FIRST STATE MONTESSORI ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2016**

**Table 1  
NET POSITION**

	Governmental Activities	
	2016	2015
(cont'd)		
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable	41,477	14,380
Accrued salaries and related costs	436,239	310,927
Total Current Liabilities	<u>477,716</u>	<u>325,307</u>
Noncurrent Liabilities:		
Net pension liability	384,095	3,968
<b>TOTAL LIABILITIES</b>	<u>861,811</u>	<u>329,275</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows - pension	126,055	6,306
NET POSITION:		
Net investment in capital assets	390,315	270,007
Restricted	-	150,000
Unrestricted	<u>1,249,371</u>	<u>716,439</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,639,686</u>	<u>\$ 1,136,446</u>

The School may use the balance of unrestricted net position of \$1,249,371, reflected above in Table 1, to meet future operating activities.

The School is pleased to report positive balance in net position for the government as a whole.

Table 2, which follows, reflects the School's revenues received by funding source and how the funding received was expended by function for fiscal years 2015 and 2016.

**Table 2  
CHANGES IN NET POSITION**

	Governmental Activities	
	2016	2015
REVENUES		
General revenue:		
Charges to school districts	\$ 1,373,954	\$ 1,107,895
Payments from primary government	2,622,089	2,081,062
Earnings on cash and investments	9,029	1,544
Program revenue:		
Charges for services	62,315	55,608
Operating grants and contributions	228,329	397,749
Capital grants and contributions	-	150,000
<b>TOTAL REVENUES</b>	<u>4,295,716</u>	<u>3,793,858</u>

**FIRST STATE MONTESSORI ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2016**

**Table 2  
CHANGES IN NET POSITION**

(cont'd)	Governmental Activities	
	2016	2015
<b>EXPENSES</b>		
Instructional services	2,830,713	2,114,922
Support services:		
Operation and maintenance of facilities	675,341	623,529
Transportation	229,253	227,221
Food service	57,169	39,585
<b>TOTAL EXPENSES</b>	<u>3,792,476</u>	<u>3,005,257</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 503,240</u>	<u>\$ 788,601</u>

***Governmental Activities***

The net position of the School's governmental activities increased by \$503,240, and unrestricted net position reflects a positive balance of \$1,249,371. The increase in the net position is primarily the result of increased funding from the State of Delaware and local school districts due to increased enrollment, as well as the School's careful management of its costs.

The statement of activities shows the cost of program services and the charges for services, and grants and contributions 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 the governmental activities. General revenues, which include charges to school districts, state aid not restricted for specific purposes, cash and investment earnings, and other local revenues must support the net cost of the programs.

	2016		2015	
	Total Cost	Net Cost	Total Cost	Net Cost (Revenue)
<i>Governmental Activities</i>				
Instructional services	\$ 2,830,713	\$ 2,581,594	\$ 2,114,922	\$ 1,785,585
Support services:				
Operation and maintenance of facilities	675,341	675,341	623,529	623,529
Transportation	229,253	229,253	227,221	781
Food service	57,169	15,644	39,585	(7,995)
<b>Total Expenses</b>	<u>\$ 3,792,476</u>	<u>\$ 3,501,832</u>	<u>\$ 3,005,257</u>	<u>\$ 2,401,900</u>

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$3,501,832 of support.

**FIRST STATE MONTESSORI ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2016**

**THE SCHOOL'S FUNDS**

The governmental fund (as presented on the balance sheet on page 14) reported a fund balance of \$1,158,369, which represents an increase of \$394,560 from the prior year fund balance amount of \$763,809. The schedule below presents the makeup of the total fund balance amount at year end.

	Governmental Fund	
	2016	2015
FUND BALANCE		
Nonspendable	\$ 133,742	\$ 82,334
Restricted	-	150,000
Assigned	2,189	16,333
Unassigned	1,022,438	515,142
Total Fund Balance	\$ 1,158,369	\$ 763,809

***General Fund***

The increase in the fund balance is primarily the result of increased funding from the State of Delaware and local school districts due to increased enrollment, as well as the School's careful management of its costs.

The table that follows assists in illustrating the financial activities and balance of governmental funds.

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

	2016	2015
REVENUES		
Charges to school districts	\$ 1,373,954	\$ 1,107,895
State aid	2,622,089	2,307,502
Federal aid	164,231	85,934
Earnings on cash and investments	9,029	1,544
Food service revenue	15,824	47,580
Contributions	64,098	208,383
School programs	46,491	35,020
TOTAL REVENUES	4,295,716	3,793,858
EXPENDITURES		
Current:		
Instructional services	2,818,099	2,215,639
Operation and maintenance of facilities	662,423	613,068
Transportation	229,253	227,221
Food service	57,169	39,585
Capital outlays:		
Property	125,115	23,233
Equipment	9,097	-
TOTAL EXPENDITURES	3,901,156	3,118,746

**FIRST STATE MONTESSORI ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2016**

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

	2016	2015
(cont'd)		
NET CHANGE IN FUND BALANCE	394,560	675,112
FUND BALANCE, BEGINNING OF YEAR	763,809	88,697
FUND BALANCE, END OF YEAR	\$ 1,158,369	\$ 763,089

The largest revenue reported by the School for the year was for aid received from the State of Delaware, accounting for 61.04 percent of total revenues. Charges to local school districts for students attending the School was also significant, accounting for 31.98 percent.

The largest portions of general fund expenditures are for personnel costs, which include salaries and related employment costs. The School is a service-oriented organization and, as such, is very labor intensive.

**GENERAL FUND BUDGET INFORMATION**

The most significant budgeted fund is the general fund, which is presented on the modified accrual basis of accounting. The School may amend its revenue and expenditure estimates periodically due to changing conditions.

The following are explanations for the more significant variances between budget and actual revenues and expenditures as shown on page 31.

***Revenues***

State Aid

A favorable variance of \$52,563 was realized due primarily to conservative budgeting practices, and State revenues increasing more than expected due to additional amounts awarded for personnel costs to cover increases in health insurance rates, pension contributions, and other benefits.

Federal Aid

A favorable variance of \$33,874 is attributable primarily to the timing of required expenditures. Federal grants generally have an 18-month spending authority in which they are available to be used. During fiscal year 2016, the School used federal funds awarded in the prior fiscal year, in addition to funds awarded during fiscal year 2016.

**FIRST STATE MONTESSORI ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2016**

Food Service Revenue

An unfavorable variance of \$19,176 was realized due to a lower participation rate in the School's lunch program than initially expected.

Contributions

A favorable variance of \$18,910 is due primarily to conservative budgeting practices, as well as the School seeking support from the community on an ongoing basis.

School Programs

An unfavorable variance of \$13,509 is due to student participation in school programs and activities being lower than anticipated.

Salaries and Employment Costs

A combined unfavorable variance of \$16,950 is due to the rising cost of health insurance as well as staff members receiving unbudgeted pay increases as a result of completing an advanced degree program or obtaining additional certifications.

Contractual Services

A favorable variance of \$17,810 is due primarily to savings for consulting, management, and legal fees that were originally budgeted very conservatively. The School also controlled spending as much as possible during the year.

Insurance

A favorable variance of \$13,422 was realized due to conservative budgeting practices, and the School actively seeking an insurance carrier with favorable premiums.

Repairs and Maintenance

A favorable variance of \$51,812 was realized due to conservative budgeting practices, as well as the School carefully evaluating the condition of its buildings and equipment, and judiciously selecting areas in the most critical need of repairs.

Supplies and Materials

An unfavorable variance of \$14,179 is due to more supplies being required in the School's second year of operations than originally anticipated. The School is committed to ensuring its students and staff have the requisite materials to support the students' learning environment.

**FIRST STATE MONTESSORI ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2016**

Capital Outlay – Property

A favorable variance of \$24,885 was realized due to fewer capital improvements being made than anticipated during the year.

**CAPITAL ASSETS**

The School has \$390,315 invested in capital assets, net of depreciation. During the current year, the School made capital improvements to its leasehold and fixtures totaling \$125,115, and acquired equipment totaling \$9,097. The most significant capital improvements related to the renovation of the gym floor (\$40,300), and upgrades and improvements made to the School's HVAC and boiler (\$72,473).

Detailed information regarding capital assets is reflected in Note 3 of the financial statements.

**DEBT OBLIGATIONS**

The School does not have any debt obligations as of June 30, 2016.

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

The School opened in August 2014 with 280 students for its first year of operations, and grew in fiscal year 2016 to a total enrollment of 325 students. Management anticipates that revenue and expenses will increase as a result of the future growth and has developed a budget to support the identified growth. The School has identified a continued need to provide students with additional support services and educational programs. Many of these programs will require additional resources not adequately funded with federal, state, or local district revenue. Also, potential cutbacks in educational spending at the federal, state, and local level could impact the School's financial resources to meet the State's accountability requirements. In anticipation of these events, the School is taking steps to increase the percentage of funding from nongovernmental resources.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our fellow citizens, customers, investors, and creditors with a general overview of the School's finances and to show the School's accountability for the funding received. If you have questions about this report or need additional financial information, contact the School's Finance Office at (302) 576-1500.

## **BASIC FINANCIAL STATEMENTS**

**FIRST STATE MONTESSORI ACADEMY, INC.**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2016 AND 2015**

	Governmental Activities	
	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and pooled cash	\$ 1,480,310	\$ 1,006,782
Accounts receivable	22,033	-
Prepaid rent	26,037	24,630
Total Current Assets	1,528,380	1,031,412
NONCURRENT ASSETS:		
Security deposit	107,705	57,704
Capital assets, net of depreciation	390,315	270,007
Total Noncurrent Assets	498,020	327,711
TOTAL ASSETS	2,026,400	1,359,123
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred pension contributions	143,239	103,154
Deferred outflows - pension	457,913	9,750
TOTAL DEFERRED OUTFLOWS OF RESOURCES	601,152	112,904
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,627,552	\$ 1,472,027
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 41,477	\$ 14,380
Accrued salaries and related costs	436,239	310,927
Total Current Liabilities	477,716	325,307
NONCURRENT LIABILITIES:		
Net pension liability	384,095	3,968
Total Noncurrent Liabilities	384,095	3,968
TOTAL LIABILITIES	861,811	329,275
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows - pension	126,055	6,306
TOTAL DEFERRED INFLOWS OF RESOURCES	126,055	6,306
NET POSITION:		
Net investment in capital assets	390,315	270,007
Restricted	-	150,000
Unrestricted	1,249,371	716,439
TOTAL NET POSITION	1,639,686	1,136,446
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 2,627,552	\$ 1,472,027

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

**FIRST STATE MONTESSORI ACADEMY, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(With Summarized Comparative Data for the Year Ended June 30, 2015)**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2016	2015
<b>GOVERNMENTAL ACTIVITIES</b>						
Instructional services	\$ (2,830,713)	\$ 46,491	\$ 202,628	\$ -	\$ (2,581,594)	\$ (1,785,585)
Support services:						
Operation and maintenance of facilities	(675,341)	-	-	-	(675,341)	(623,529)
Transportation	(229,253)	-	-	-	(229,253)	(781)
Food service	(57,169)	15,824	25,701	-	(15,644)	7,995
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ (3,792,476)</b>	<b>\$ 62,315</b>	<b>\$ 228,329</b>	<b>\$ -</b>	<b>(3,501,832)</b>	<b>(2,401,900)</b>
<b>GENERAL REVENUES</b>						
Charges to school districts					1,373,954	1,107,895
Payments from primary government					2,622,089	2,081,062
Earnings on cash and investments					9,029	1,544
<b>TOTAL GENERAL REVENUES</b>					<b>4,005,072</b>	<b>3,190,501</b>
<b>CHANGE IN NET POSITION</b>					503,240	788,601
<b>NET POSITION, BEGINNING OF YEAR</b>					1,136,446	347,845
<b>NET POSITION, END OF YEAR</b>					<b>\$ 1,639,686</b>	<b>\$ 1,136,446</b>

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

**FIRST STATE MONTESSORI ACADEMY, INC.  
BALANCE SHEETS - GOVERNMENTAL FUND  
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and pooled cash	\$ 1,480,310	\$ 1,006,782
Accounts receivable	22,033	-
Prepaid rent	26,037	24,630
Security deposit	<u>107,705</u>	<u>57,704</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,636,085</u></u>	<u><u>\$ 1,089,116</u></u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 41,477	\$ 14,380
Accrued salaries and related benefits	436,239	310,927
Total Liabilities	<u>477,716</u>	<u>325,307</u>
<b>FUND BALANCE:</b>		
Nonspendable	133,742	82,334
Restricted	-	150,000
Assigned	2,189	16,333
Unassigned	1,022,438	515,142
Total Fund Balance	<u>1,158,369</u>	<u>763,809</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 1,636,085</u></u>	<u><u>\$ 1,089,116</u></u>

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

**FIRST STATE MONTESSORI ACADEMY, INC.  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND  
TO STATEMENT OF NET POSITION  
JUNE 30, 2016**

FUND BALANCE - GOVERNMENTAL FUND	\$ 1,158,369
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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.	390,315
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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:

Net pension liability	(384,095)
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Deferred inflows of resources and deferred outflows of resources 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	\$ 143,239	
Deferred outflows - pension	457,913	
Deferred inflows - pension	<u>(126,055)</u>	<u>475,097</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,639,686</u></u>
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The accompanying notes are an integral part of these financial statements.

**FIRST STATE MONTESSORI ACADEMY, INC.**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**GOVERNMENTAL FUND**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>		
Charges to school districts	\$ 1,373,954	\$ 1,107,895
State aid	2,622,089	2,307,502
Federal aid	164,231	85,934
Earnings on cash and investments	9,029	1,544
Food service revenue	15,824	47,580
Contributions	64,098	208,383
School programs	46,491	35,020
<b>TOTAL REVENUES</b>	<u>4,295,716</u>	<u>3,793,858</u>
<b>EXPENDITURES</b>		
Current:		
Instructional services	2,818,099	2,215,639
Operation and maintenance of facilities	662,423	613,068
Transportation	229,253	227,221
Food service	57,169	39,585
Capital outlays:		
Property	125,115	23,233
Equipment	9,097	-
<b>TOTAL EXPENDITURES</b>	<u>3,901,156</u>	<u>3,118,746</u>
<b>NET CHANGE IN FUND BALANCE</b>	394,560	675,112
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>763,809</u>	<u>88,697</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 1,158,369</u>	<u>\$ 763,809</u>

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

**FIRST STATE MONTESSORI ACADEMY, INC.**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND \$ 394,560

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	\$ 134,212	
Depreciation expense	<u>(13,904)</u>	120,308

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.

(11,628)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 503,240

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

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

First State Montessori Academy, Inc. 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. An initial charter is 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 a charter school receives local, state, and federal funds, they may not charge tuition.

The financial statements of First State Montessori Academy, Inc. 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 First State Montessori Academy, Inc. ("the School") are described below.

Reporting Entity

The School is a special purpose government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Entity-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

**Entity-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Charges to the school districts, state appropriations, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School.

Amounts 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.

Encumbrance Accounting

Encumbrance accounting is employed by the School's governmental fund. Encumbrances (i.e. purchase orders and contracts) outstanding at year end are reported as assigned fund balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. At June 30, 2016, the School had outstanding encumbrances in the amount of \$2,189.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Receivables

The School considers all accounts receivable at year end to be collectible; therefore, no allowance for doubtful accounts has been recorded.

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, individual 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 cost 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:

Leasehold improvements	24 - 25 years
Furniture and equipment	5 years

Collections

The School maintains a small collection of various artwork that was donated by a third party at the start of the School's operations. As this collection is held for the furtherance of the education of its students, rather than for financial gain, it has not been capitalized.

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 fund only when the liability matures, for example, as a result of employee resignations and retirements.

**Vacation** – Twelve-month employees can accumulate up to 42 days of vacation. Any unused vacation days are not carried over to the subsequent year and are not paid out upon termination or retirement.

**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. Unused sick leave cannot be carried over to the subsequent year, and sick time is not paid out upon termination or retirement.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Earned unused sick leave may be transferred to another state agency if the employee remains a state employee or is later rehired as a state employee. Sick time does not accrue while an employee is on leave of absence, unless otherwise required by law.

Fund Equity

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

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

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

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

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Head of School 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 Head of School has provided otherwise in its 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 consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors,

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

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.

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.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2016, the School has a cash equivalent balance of \$1,480,310. Of that amount, \$1,475,645 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND CASH EQUIVALENTS (cont'd)

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

At June 30, 2016, the reported amount of the School's deposits not held with the State Treasurer's Office was \$4,665, and the bank balance was \$4,665. All of the balance was covered by federal depository insurance.

NOTE 3 CAPITAL ASSETS

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

	<u>Balances 7/01/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances 6/30/16</u>
Governmental Activities: Capital assets being depreciated:				
Leasehold improvements	\$ 280,468	\$ 125,115	\$ -	\$ 405,583
Furniture and equipment	-	9,097	-	9,097
Total capital assets being depreciated	280,468	134,212	-	414,680
Accumulated depreciation	<u>(10,461)</u>	<u>(13,904)</u>	-	<u>(24,365)</u>
Total capital assets being depreciated, net	<u>270,007</u>	<u>120,308</u>	-	<u>390,315</u>
Governmental Activities, Net	<u>\$ 270,007</u>	<u>\$ 120,308</u>	<u>\$ -</u>	<u>\$ 390,315</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
Instructional services	\$ 986
Operation and maintenance of facilities	<u>12,918</u>
	<u>\$ 13,904</u>

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 FUND BALANCE

As of June 30, 2016, fund balance is composed of the following:

Nonspendable:	
Prepaid rent	\$ 26,037
Security deposit	107,705
Assigned for encumbrances	2,189
Unassigned	<u>1,022,438</u>
Total Fund Balance	<u>\$ 1,158,369</u>

NOTE 5 PENSION PLAN

Plan Description

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

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

The following are brief descriptions of the Plan in effect as of June 30, 2015. For a more complete description, please refer to the Delaware Employees' Pension Plan Comprehensive Annual Financial Report. Separately issued financial statements for the Plan may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904; by calling 1-800-722-7300; or by visiting the PERS website at [www.delawarepensions.com](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

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

1.85 percent and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three periods of twelve consecutive months of compensation.

*Vesting*

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

*Retirement*

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

*Disability Benefits*

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

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

*Employer Contributions*

Employer contributions are determined by the Board. For the year ended June 30, 2016, the rate of the employer contribution was 9.58 percent of covered payroll. The School's contribution to PERS for the year ended June 30, 2016 was \$143,239.

*PRI Contribution*

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

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

At June 30, 2016, the School reported a liability of \$384,095 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the net pension liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2015, the School's proportion was 0.0577 percent, which represents an increase from the prior measurement date of 0.0566 percent.

For the year ended June 30, 2016, the School recognized pension expense of \$154,867. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 117,439
Difference between actual and expected experience	-	8,616
Changes in proportions	457,913	-
Contributions subsequent to the date of measurement	<u>143,239</u>	<u>-</u>
	<u>\$ 601,152</u>	<u>\$ 126,055</u>

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

An amount of \$143,239 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2015 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2017	\$ 60,500
2018	60,500
2019	60,500
2020	60,500
2021	89,858
	<u>\$ 331,858</u>

Actuarial Assumptions

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

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

The total pension liabilities are measured based on the assumptions pertaining to interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the actual experience deviates, the larger the impact on future financial statements.

Mortality rates were based on the Sex Distinct RP-2000 Combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

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

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Asset Allocation</u>
Domestic equity	5.7%	36.5%
International equity	5.7%	16.5%
Fixed income	2.0%	22.6%
Alternative investments	7.8%	19.6%
Cash and equivalents	-	4.8%

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, 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.

	<u>1% Decrease 6.2%</u>	<u>Current Rate Discount Rate 7.2%</u>	<u>1% Increase 8.2%</u>
School's proportionate share of the net pension liability (asset)	\$ 867,266	\$ 384,095	\$ (182,727)

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Pension Plan Fiduciary Net Position

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

NOTE 6 LEASES

The School is involved in the following operating leasing arrangements:

School Facility

The School entered into a leasing arrangement for a real property with Office Partners XV French Street LLC for a term of 10 years. The lease commenced on August 1, 2014 and expires in July 2024. The lease calls for monthly lease payments of \$24,630 through August 1, 2015. Thereafter, monthly payments increase each year until year three, in which monthly payments of \$31,667 remain due for the duration of the lease.

The School has also entered into a leasing arrangement for a real property with CSDCPC 920 French LLC for a term of 10 years. The lease commenced on July 1, 2016 and expires on June 30, 2026. The lease requires monthly payments of \$26,334 for the first year and increases annually for the duration of the lease.

Future minimum rental payments under these lease agreements are as follows:

Years Ending June 30,

2017	\$ 690,382
2018	830,007
2019	905,007
2020	980,007
2021	986,007
2022 - 2026	<u>4,262,121</u>
	<u>\$ 8,653,531</u>

Total rental costs incurred for the year ended June 30, 2016 were \$311,043.

FIRST STATE MONTESSORI ACADEMY, INC.

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 either of the past two years. There were no significant reductions in coverage compared to the prior 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 significant financial assistance from federal and state 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 is subject to audit by the State Office of Auditor of Accounts and 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.

NOTE 9 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	\$	11,069
Employment costs	\$	5,881
Travel	\$	1,474
Public utilities services	\$	4,066
Facility costs	\$	1,754
Supplies and materials	\$	14,179
Capital outlay - equipment	\$	9,097

The excess expenditures were covered by other current year expenditure appropriations that were under budget.

NOTE 10 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 22, 2016, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**FIRST STATE MONTESSORI ACADEMY, INC.**  
**BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges to school districts	\$ 1,240,564	\$ 1,376,712	\$ 1,373,954	\$ (2,758)
State aid	2,518,407	2,569,526	2,622,089	52,563
Federal aid	130,357	130,357	164,231	33,874
Earnings on cash and investments	-	-	9,029	9,029
Food service revenue	35,000	35,000	15,824	(19,176)
Contributions	50,000	45,188	64,098	18,910
School programs	10,000	60,000	46,491	(13,509)
<b>TOTAL REVENUES</b>	<u>3,984,328</u>	<u>4,216,783</u>	<u>4,295,716</u>	<u>78,933</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	1,638,264	1,661,264	1,672,333	(11,069)
Employment costs	706,603	721,113	726,994	(5,881)
Travel	-	-	1,474	(1,474)
Contractual services	331,000	377,000	359,190	17,810
Communications	10,000	10,000	3,485	6,515
Public utilities services	120,000	120,000	124,066	(4,066)
Insurance	40,000	40,000	26,578	13,422
Facility costs	384,450	391,450	393,204	(1,754)
Transportation - buses	271,000	240,000	229,253	10,747
Repairs and maintenance	170,000	170,000	118,188	51,812
Supplies and materials	98,000	98,000	112,179	(14,179)
Capital outlays:				
Property	150,000	150,000	125,115	24,885
Equipment	-	-	9,097	(9,097)
<b>TOTAL EXPENDITURES</b>	<u>3,919,317</u>	<u>3,978,827</u>	<u>3,901,156</u>	<u>77,671</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>65,011</u>	<u>237,956</u>	<u>394,560</u>	<u>156,604</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Contingency	(125,179)	(188,925)	-	188,925
Appropriated fund balance	728,118	728,118	-	728,118
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>602,939</u>	<u>539,193</u>	<u>-</u>	<u>917,043</u>
<b>NET CHANGE IN FUND BALANCE</b>	667,950	777,149	394,560	1,073,647
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>763,809</u>	<u>763,809</u>	<u>763,809</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u><u>\$ 1,431,759</u></u>	<u><u>\$ 1,540,958</u></u>	<u><u>\$ 1,158,369</u></u>	<u><u>\$ 1,073,647</u></u>

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

**FIRST STATE MONTESSORI ACADEMY, INC.  
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, 2015</u>	<u>JUNE 30, 2014</u>
School's proportion of the net pension liability	0.0577%	0.0011%
School's proportion of the net pension liability - dollar value	\$ 384,095	\$ 3,968
School's covered employee payroll	\$ 1,076,757	\$ 19,707
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	35.67%	20.13%
Plan fiduciary net position as a percentage of the total pension liability	92.67%	95.80%

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.

**FIRST STATE MONTESSORI ACADEMY, INC.  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF SCHOOL CONTRIBUTIONS**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 143,239	\$ 102,938
Contributions in relation to the contractually required contribution	<u>143,239</u>	<u>102,938</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 1,495,188	\$ 1,076,757
Contributions as a percentage of covered-employee payroll	9.58%	9.56%

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

**SUPPLEMENTARY INFORMATION**

**FIRST STATE MONTESSORI ACADEMY, INC.  
COMBINING BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2016**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and pooled cash	\$ 42,154	\$ 1,438,156	\$ -	\$ 1,480,310
Accounts receivable	-	-	22,033	22,033
Prepaid rent	26,037	-	-	26,037
Security deposit	-	107,705	-	107,705
<b>TOTAL ASSETS</b>	<u><u>\$ 68,191</u></u>	<u><u>\$ 1,545,861</u></u>	<u><u>\$ 22,033</u></u>	<u><u>\$ 1,636,085</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ 41,477	\$ -	\$ 41,477
Accrued salaries and employment costs	-	414,206	22,033	436,239
<b>TOTAL LIABILITIES</b>	<u><u>-</u></u>	<u><u>455,683</u></u>	<u><u>22,033</u></u>	<u><u>477,716</u></u>
<b>FUND BALANCES:</b>				
Nonspendable	26,037	107,705	-	133,742
Assigned	2,189	-	-	2,189
Unassigned	39,965	982,473	-	1,022,438
<b>TOTAL FUND BALANCES</b>	<u><u>68,191</u></u>	<u><u>1,090,178</u></u>	<u><u>-</u></u>	<u><u>1,158,369</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 68,191</u></u>	<u><u>\$ 1,545,861</u></u>	<u><u>\$ 22,033</u></u>	<u><u>\$ 1,636,085</u></u>

**FIRST STATE MONTESSORI ACADEMY, INC.  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Total</u>
<b>REVENUES</b>				
Charges to school districts	\$ -	\$1,373,954	\$ -	\$1,373,954
State aid	2,622,089	-	-	2,622,089
Federal aid	-	-	138,530	138,530
Earnings on cash and investments	-	9,029	-	9,029
Food service revenue	-	15,824	25,701	41,525
Contributions	-	64,098	-	64,098
School programs	-	46,491	-	46,491
<b>TOTAL REVENUES</b>	<u>2,622,089</u>	<u>1,509,396</u>	<u>164,231</u>	<u>4,295,716</u>
<b>EXPENDITURES</b>				
Current:				
Instructional services	1,871,277	808,292	138,530	2,818,099
Operation and maintenance of facilities	401,318	261,105	-	662,423
Transportation	229,253	-	-	229,253
Food service	1,090	30,378	25,701	57,169
Capital outlays:				
Property	112,773	12,342	-	125,115
Equipment	-	9,097	-	9,097
<b>TOTAL EXPENDITURES</b>	<u>2,615,711</u>	<u>1,121,214</u>	<u>164,231</u>	<u>3,901,156</u>
<b>NET CHANGE IN FUND BALANCES</b>	6,378	388,182	-	394,560
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>61,813</u>	<u>701,996</u>	<u>-</u>	<u>763,809</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 68,191</u>	<u>\$1,090,178</u>	<u>\$ -</u>	<u>\$1,158,369</u>

**FIRST STATE MONTESSORI ACADEMY, INC.**  
**SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

EXPENDITURES

Current:

Salaries	\$ 1,672,333
Employment costs	726,994
Travel	1,474
Contractual services	359,190
Communications	3,485
Public utilities services	124,066
Insurance	26,578
Facility costs	393,204
Transportation - buses	229,253
Repairs and maintenance	118,188
Supplies and materials	112,179

Capital outlays:

Property	125,115
Equipment	<u>9,097</u>

TOTAL EXPENDITURES	<u><u>\$ 3,901,156</u></u>
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INDEPENDENT AUDITOR'S  
REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

September 22, 2016

Board of Directors  
First State Montessori Academy, Inc.  
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 and the major fund of First State Montessori Academy, Inc. ("the School"), Wilmington, Delaware, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 22, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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  
First State Montessori Academy, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

*Barbacane, Thornton & Company LLP*

BARBACANE, THORNTON & COMPANY LLP