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

FINANCIAL STATEMENTS

JUNE 30, 2018

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

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(A Component Unit of the State of Delaware)

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INDEPENDENT AUDITOR'S REPORT

September 28, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

BARBACANE
THORNTON
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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., as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, First State Montessori Academy, Inc. has adopted the requirements of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." This statement modifies the accounting for the School's other postemployment benefits. As a result, the beginning governmental activities net position has been restated. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the First State Montessori Academy, Inc.'s 2017 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and the major fund in our report dated September 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, and the budgetary comparison schedule - governmental fund, schedule of the School's proportionate share of the net pension liability, schedule of School pension contributions, schedule of the School's proportionate share of the net OPEB liability, and schedule of School OPEB contributions on pages 37 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
First State Montessori Academy, Inc.

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.

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 28, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the School's financial performance provides an overview of the financial activities for the year ended June 30, 2018. 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 2018 was the School's fourth year of operations. During the year, the net position of the School decreased by $570,848, or 11.31 percent. Program revenues accounted for $658,038, or 9.20 percent of total revenues, and the general revenues accounted for $6,491,903, or 90.80 percent of total revenues. Also, the general fund reported a positive fund balance of $1,030,576.

The school implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The purpose of this statement is to improve transparency, consistency, and comparability of postemployment benefits other than pensions reported by state and local governments (e.g. charter schools and school districts). The implementation of GASB Statement No. 75 has had an impact on the entity-wide statements. The School is now required to report its proportionate share of the net other postemployment benefits ("OPEB") liability. This portion of the net OPEB liability resulted in a total deficit in net position of $5,616,350. The net OPEB liability reported in these financial statements at June 30, 2018 totals $9,971,884. While the net OPEB liability is significant to the School's financial statements, it is a liability that the School has limited control over. This liability is anticipated to continue to increase in future years as medical costs increase. Reporting in the governmental fund is not affected by the implementation of this statement.

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, with 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 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 were exceeded by liabilities and deferred inflows of resources by $5,616,350 at the close of the fiscal year. The largest portion of the School's total assets is cash and pooled cash (56.26 percent); capital assets net of depreciation, including construction-in-progress (39.73) and other assets (4.01 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 2018 and 2017 follows:

Table 1
NET POSITION
JUNE 30, 2018 AND 2017

	Governmental Activities	
	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current and Other Assets:		
Cash and pooled cash	$ 1,678,976	$ 1,754,829
Other current assets	11,992	42,198
Total Current Assets	1,690,968	1,797,027
Noncurrent Assets:		
Security deposit	107,705	107,705
Construction-in-progress	763,329	-
Capital assets, net of depreciation	422,472	409,017
Total Noncurrent Assets	1,293,506	516,722

Table 1
NET POSITION
JUNE 30, 2018 AND 2017

	Governmental Activities	
(cont'd)	2018	2017
Deferred Outflows of Resources:		
Deferred pension contributions	294,859	230,744
Deferred outflows - pension	1,167,613	828,066
Deferred OPEB contributions	312,034	286,537
Deferred outflows - OPEB	3,392,699	-
Total Deferred Outflows of Resources	5,167,205	1,345,347
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	8,151,679	3,659,096
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable	45,571	24,242
Accrued salaries and related costs	722,526	571,703
Total Current Liabilities	768,097	595,945
Noncurrent Liabilities:		
Net pension liability	1,812,210	1,181,416
Net OPEB liability	9,971,884	6,901,323
TOTAL LIABILITIES	11,784,094	8,678,684
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows - pension	31,951	25,914
Deferred inflows - OPEB	1,183,887	-
Total Deferred Inflows of Resources	1,215,838	25,914
NET POSITION:		
Investment in capital assets	1,185,801	409,017
Restricted - capital renovations	-	100,000
Unrestricted (deficit)	(6,802,151)	(5,554,519)
TOTAL NET POSITION (DEFICIT)	$ (5,616,350)	$ (5,045,502)

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 2018 and 2017.

Table 2
CHANGES IN NET POSITION
FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	Governmental Activities	
	2018	2017
REVENUES		
General revenue:		
Charges to school districts	$ 2,285,459	$ 1,822,086
Payments from primary government	4,195,777	3,462,745
Earnings on cash and investments	10,667	21,045
Program revenue:		
Charges for services	132,972	107,354
Operating grants and contributions	525,066	194,419
Capital grants and contributions	-	100,000
TOTAL REVENUES	7,149,941	5,707,649
EXPENSES		
Instructional services	5,457,719	4,164,536
Support services:		
Operation and maintenance of facilities	1,715,796	1,240,374
Transportation	408,872	314,218
Food service	138,402	58,923
TOTAL EXPENSES	7,720,789	5,778,051
CHANGE IN NET POSITION	$ (570,848)	$ (70,402)

Governmental Activities

The net position of the School's governmental activities decreased by $570,848, and unrestricted net position reflects a negative balance of $6,802,151. The decrease in net position is primarily the result of increased facility costs due to the use of additional square footage of leased space to support the increase in enrollment that was realized during the year, and a large increase in the School's proportionate share of the net pension and OPEB liabilities.

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.

	2018		2017	
	Total Cost	Net Cost	Total Cost	Net Cost
Governmental Activities				
Instructional services	$ 5,457,719	$ 4,859,655	$ 4,164,536	$ 3,818,918
Support services:				
Operation and maintenance of facilities	1,715,796	1,715,796	1,240,374	1,240,374
Transportation	408,872	408,872	314,218	314,218
Food service	138,402	78,428	58,923	2,768
Total Expenses	$ 7,720,789	$ 7,062,751	$ 5,778,051	$ 5,376,278

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for $7,062,751 of support.

THE SCHOOL'S FUNDS

The governmental fund (as presented on the balance sheet on page 14) reported a fund balance of $1,030,576, which represents a decrease of $278,211 from the prior year fund balance amount of $1,308,787. The schedule below presents the makeup of the total fund balance amount at year end.

	Governmental Fund	
	2018	2017
FUND BALANCE		
Nonspendable	$ 107,705	$ 140,414
Restricted - capital renovations	-	100,000
Unassigned	922,871	1,068,373
Total Fund Balance	$ 1,030,576	$ 1,308,787

General Fund

The decrease in the fund balance is primarily the result of expenditures for ongoing capital renovations.

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

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

	2018	2017
REVENUES		
Charges to school districts	$ 2,285,459	$ 1,822,086
State aid	4,195,777	3,462,745
Federal aid	126,738	139,713
Earnings on cash and investments	10,667	21,045
Food service revenue	59,974	23,792
Contributions	361,733	154,706
School programs	109,593	83,562
TOTAL REVENUES	7,149,941	5,707,649
EXPENDITURES		
Current:		
Instructional services	4,379,583	3,919,803
Operation and maintenance of facilities	1,698,661	1,223,910
Transportation	408,872	314,218
Food service	138,402	58,923
Capital outlays:		
Property	802,634	5,900
Equipment	-	34,477
TOTAL EXPENDITURES	7,428,152	5,557,231
NET CHANGE IN FUND BALANCE	(278,211)	150,418
FUND BALANCE, BEGINNING OF YEAR	1,308,787	1,158,369
FUND BALANCE, END OF YEAR	$ 1,030,576	$ 1,308,787

The largest revenue reported by the School for the year was for aid received from the State of Delaware, accounting for 58.68 percent of total revenues. Charges to local school districts for students attending the School was also significant, accounting for 31.96 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 37.

Revenues

Federal Aid

A negative variance of $26,473 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. Funds unused during the 2018 fiscal year are available for use in the 2019 fiscal year.

Food Service Revenue

An unfavorable variance of $6,676 was realized due to a lower participation rate in the School's lunch program than initially expected.

Contributions

A favorable variance of $11,543 is due primarily to additional donations and grants being received above the amount that was expected.

School Programs

A favorable variance of $9,093 is due to additional field trips and other school activities in excess of the projected amounts.

Contractual Services

A favorable variance of $19,955 is due primarily to legal costs and similar services being budgeted very conservatively; no significant legal costs were incurred during the year.

Public Utilities Services

A favorable variance of $46,009 is due primarily to the increase in utility costs for the School's second building being realized below the estimated amount.

Repairs and Maintenance

An unfavorable variance of $45,796 was realized due to repairs and replacements in the School's second building that were required to be made but were not budgeted.

Capital Outlays

A favorable variance of $147,556 was realized due to a budgeted renovation project that began but was not completed in 2018.

CAPITAL ASSETS

The School has $1,185,801 invested in capital assets, net of depreciation, including $763,329 in construction-in-progress. During the current year, the School made capital improvements to its leasehold and fixtures totaling $802,634.

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, 2018.

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 2018 to a total enrollment of 509 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, 2018 AND 2017

	Governmental Activities	
	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and pooled cash	$ 1,678,976	$ 1,754,829
Accounts receivable	11,992	9,489
Prepaid rent	-	32,709
Total Current Assets	1,690,968	1,797,027
NONCURRENT ASSETS:		
Security deposit	107,705	107,705
Construction-in-progress	763,329	-
Capital assets, net of depreciation	422,472	409,017
Total Noncurrent Assets	1,293,506	516,722
TOTAL ASSETS	2,984,474	2,313,749
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred pension contributions	294,859	230,744
Deferred outflows - pension	1,167,613	828,066
Deferred OPEB contributions	312,034	286,537
Deferred outflows - OPEB	3,392,699	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,167,205	1,345,347
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 8,151,679	$ 3,659,096
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 45,571	$ 24,242
Accrued salaries and related costs	722,526	571,703
Total Current Liabilities	768,097	595,945
NONCURRENT LIABILITIES:		
Net pension liability	1,812,210	1,181,416
Net OPEB liability	9,971,884	6,901,323
Total Noncurrent Liabilities	11,784,094	8,082,739
TOTAL LIABILITIES	12,552,191	8,678,684
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows - pension	31,951	25,914
Deferred inflows - OPEB	1,183,887	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,215,838	25,914
NET POSITION:		
Investment in capital assets	1,185,801	409,017
Restricted - capital renovations	-	100,000
Unrestricted (deficit)	(6,802,151)	(5,554,519)
TOTAL NET DEFICIT	(5,616,350)	(5,045,502)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)	$ 8,151,679	$ 3,659,096

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, 2018
(With Summarized Comparative Data for the Year Ended June 30, 2017)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position (Deficit)	
					Totals	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2018	2017
GOVERNMENTAL ACTIVITIES						
Instructional services	$ (5,457,719)	$ 109,593	$ 488,471	$ -	$ (4,859,655)	$ (3,818,918)
Support services:						
Operation and maintenance of facilities	(1,715,796)	-	-	-	(1,715,796)	(1,240,374)
Transportation	(408,872)	-	-	-	(408,872)	(314,218)
Food service	(138,402)	23,379	36,595	-	(78,428)	(2,768)
TOTAL GOVERNMENTAL ACTIVITIES	$ (7,720,789)	$ 132,972	$ 525,066	$ -	(7,062,751)	(5,376,278)
		GENERAL REVENUES				
		Charges to school districts			2,285,459	1,822,086
		Payments from primary government			4,195,777	3,462,745
		Earnings on cash and investments			10,667	21,045
		TOTAL GENERAL REVENUES			6,491,903	5,305,876
		CHANGE IN NET DEFICIT			(570,848)	(70,402)
		NET DEFICIT, BEGINNING OF YEAR, RESTATED			(5,045,502)	(4,975,100)
		NET DEFICIT, END OF YEAR			$ (5,616,350)	$ (5,045,502)

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

FIRST STATE MONTESSORI ACADEMY, INC.
BALANCE SHEETS - GOVERNMENTAL FUND
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and pooled cash	$ 1,678,976	$ 1,754,829
Accounts receivable	11,992	9,489
Prepaid rent	-	32,709
Security deposit	107,705	107,705
TOTAL ASSETS	$ 1,798,673	$ 1,904,732
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	$ 45,571	$ 24,242
Accrued salaries and related benefits	722,526	571,703
Total Liabilities	768,097	595,945
FUND BALANCE:		
Nonspendable	107,705	140,414
Restricted - capital renovations	-	100,000
Unassigned	922,871	1,068,373
Total Fund Balance	1,030,576	1,308,787
TOTAL LIABILITIES AND FUND BALANCE	$ 1,798,673	$ 1,904,732

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, 2018

FUND BALANCE - GOVERNMENTAL FUND		$ 1,030,576
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.		1,185,801
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	$ (1,812,210)	
Net OPEB liability	(9,971,884)	(11,784,094)
Deferred inflows of resources and deferred outflows of resources related to the School's net pension and OPEB liabilities 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 and OPEB liabilities, and pension and OPEB contributions made after the measurement date of the net pension and OPEB liabilities. These amounts will be amortized over the estimated remaining average service life of the employees.		
Deferred pension contributions	294,859	
Deferred OPEB contributions	312,034	
Deferred outflows - pension	1,167,613	
Deferred outflows - OPEB	3,392,699	
Deferred inflows - pension	(31,951)	
Deferred inflows - OPEB	(1,183,887)	3,951,367
TOTAL NET DEFICIT - GOVERNMENTAL ACTIVITIES		$ (5,616,350)

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, 2018 AND 2017

	2018	2017
REVENUES		
Charges to school districts	$ 2,285,459	$ 1,822,086
State aid	4,195,777	3,462,745
Federal aid	126,738	139,713
Earnings on cash and investments	10,667	21,045
Food service revenue	59,974	23,792
Contributions	361,733	154,706
School programs	109,593	83,562
TOTAL REVENUES	7,149,941	5,707,649
EXPENDITURES		
Current:		
Instructional services	4,379,583	3,919,803
Operation and maintenance of facilities	1,698,661	1,223,910
Transportation	408,872	314,218
Food service	138,402	58,923
Capital outlays:		
Property	802,634	5,900
Equipment	-	34,477
TOTAL EXPENDITURES	7,428,152	5,557,231
NET CHANGE IN FUND BALANCE	(278,211)	150,418
FUND BALANCE, BEGINNING OF YEAR	1,308,787	1,158,369
FUND BALANCE, END OF YEAR	$ 1,030,576	$ 1,308,787

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, 2018

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND		$ (278,211)
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 $5,000 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	$ 802,634	
Depreciation expense	(25,850)	776,784
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.		(233,168)
OPEB expenses in the statement of activities differ from the amount reported in the governmental funds because OPEB expenses are recognized on the statement of activities based on the School's proportionate share of the expenses of the cost-sharing OPEB plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists.		(836,253)
CHANGE IN NET DEFICIT - GOVERNMENTAL ACTIVITIES		$ (570,848)

The accompanying notes are an integral part of these 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.

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 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, 2018, the School did not have any outstanding encumbrances.

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 $5,000 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	23 - 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.

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

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.

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

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 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.

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The School reports deferred pension and OPEB contributions resulting from pension and OPEB contributions subsequent to the measurement date of the net pension liability and OPEB liability and certain other items which represent differences related to changes in the net pension liability and OPEB 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 and net OPEB 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 that it is more likely than not that its tax-exempt status and tax positions will be sustained if examined by authorities.

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

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.

Implementation of GASB Statement

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

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2018, the School has a cash equivalent balance of $1,678,976. Of that amount, $1,669,281 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.

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, 2018, the reported amount of the School's deposits not held with the State Treasurer's Office was $9,695, and the bank balance was $9,695. All of the balance was covered by federal depository insurance.

NOTE 3 CAPITAL ASSETS

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

	Balances 7/01/17	Increases	Decreases	Balances 6/30/18
Governmental Activities:				
Construction-in-progress	$ -	$ 763,329	$ -	$763,329
Capital assets being depreciated:				
Leasehold improvements	411,483	39,305	-	450,788
Furniture and equipment	43,574	-	-	43,574
Total capital assets being depreciated	455,057	39,305	-	494,362
Accumulated depreciation	(46,040)	(25,850)	-	(71,890)
Total capital assets being depreciated, net	409,017	13,455	-	422,472
Governmental Activities, Net	$ 409,017	$ 776,784	$ -	$1,185,801

Depreciation expense was charged to the following activities:

Governmental Activities:	
Instructional services	$ 8,715
Operation and maintenance of facilities	17,135
	$ 25,850

NOTE 4 FUND BALANCE

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

Nonspendable:	
Security deposit	$ 107,705
Unassigned	922,871
Total Fund Balance	$1,030,576

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, 2018. For a more complete description, please refer to the Delaware Employees' Pension Plan Comprehensive Annual Financial Report. Separately issued financial statements for the Plan may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904; by calling 1-800-722-7300; or by visiting the PERS website at www.delawarepensions.com.

Plan Description and Eligibility

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

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

Benefits Provided

Service Benefits

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

Vesting

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

NOTE 5 PENSION PLAN (cont'd)

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.

Employer Contributions

Employer contributions are determined by the Board. For the year ended June 30, 2018, the rate of the employer contribution was 11.52 percent of covered payroll. The School's contribution to PERS for the year ended June 30, 2018 was $294,859.

NOTE 5 PENSION PLAN (cont'd)

PRI Contribution

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

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

At June 30, 2018, the School reported a liability of $1,812,210 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net pension liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2017, the School's proportion was 0.1236 percent, which represents an increase from the prior measurement date of 0.0452 percent.

For the year ended June 30, 2018, the School recognized pension expense of $528,027. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	$ 211,854	$ -
Changes of assumptions	356,076	-
Difference between actual and expected experience	20,920	31,951
Changes in proportions	578,763	-
Contributions subsequent to the date of measurement	294,859	-
	$1,462,472	$ 31,951

An amount of $294,859 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

NOTE 5 PENSION PLAN (cont'd)

Year Ending June 30,	
2019	$ 187,711
2020	362,524
2021	289,768
2022	112,755
2023	188,904
	$1,135,662

Actuarial Assumptions

The total pension liability as of the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions, applied to all periods:

- Investment return/discount rate – 7.0 percent, including inflation of 2.5 percent
- Salary increases – 2.5 percent plus merit; including inflation of 2.5 percent
- Cost-of-living adjustments – 0.0 percent

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 assumptions are 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

NOTE 5 PENSION PLAN (cont'd)

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:

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

Discount Rate

The discount used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates determined by the Board, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease 6.0%	Current Rate Discount Rate 7.0%	1% Increase 8.0%
School's proportionate share of the net pension liability	$ 3,262,023	$ 1,812,210	$ 582,721

NOTE 5 PENSION PLAN (cont'd)

Pension Plan Fiduciary Net Position

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

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description

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

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

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

Plan Description and Eligibility

The Plan is a cost-sharing multiple employer plan that covers all employees of the State that are eligible to participate in the defined benefit pension plan, including employees of other affiliated entities.

Benefits Provided

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

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Contributions

Member Contributions

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

Employer Contributions

Participating employers fund the Plan for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. For the year ended June 30, 2018, the rate of the employer contribution was 12.19 percent of covered payroll. The School's contribution to the Plan for the year ended June 30, 2018 was $312,034.

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

At June 30, 2018, the School reported a liability of $9,971,884 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total pension liability used to calculate the net OPEB liability was determined by rolling forward the Plan's total OPEB liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net OPEB liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2017, the School's proportion was 0.1208 percent, which was an increase of 0.0448 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of $1,148,287. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Net difference between projected and actual investment earnings	$ -	$ 19,745
Changes in proportions	3,392,699	-
Changes in assumptions	-	1,164,142
Contributions subsequent to the date of measurement	312,034	-
	$3,704,733	$1,183,887

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

An amount of $312,034 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in OPEB expense as follows:

Year Ending June 30,	
2019	$ 440,753
2020	440,753
2021	440,753
2022	440,753
2023	445,800
	$2,208,812

Actuarial Assumptions

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

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

The discount rate was based on the Bond Buyer GO 20-Bond Municipal Bond Index.

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

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

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Discount Rate

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

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

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

	1% Decrease 2.58%	Current Rate Discount Rate 3.58%	1% Increase 4.58%
School's proportionate share of the net OPEB liability	$ 11,957,840	$ 9,971,884	$ 8,425,973

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

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

	1% Decrease 6.0%	Current Rate Discount Rate 7.0%	1% Increase 8.0%
School's proportionate share of the net OPEB liability	$ 8,443,939	$ 9,971,884	$ 11,845,556

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Plan Fiduciary Net Position

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

NOTE 7 LEASES

The School is involved in the following operating leasing arrangements:

School Facility

The School entered into a leasing arrangement for 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, and increases each year thereafter.

The School has also entered into a leasing arrangement for 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,	
2019	$ 932,355
2020	1,016,520
2021	1,031,892
2022	1,047,535
2023	1,063,453
2024 - 2026	2,347,151
	$ 7,438,906

Total rental costs incurred for the year ended June 30, 2018 were $848,391.

NOTE 8 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 9 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.

Construction Commitments

At June 30, 2018, the School was party to a fixed fee construction contract in the amount of $923,569 for building renovations, of which $711,052 in expenditures had been incurred by June 30, 2018, resulting in a remaining construction commitment of $212,517. All payments under this contract are reported as construction-in-progress on the statement of net position as of June 30, 2018. Additionally, construction-in-progress includes $52,277 which is not subject to a commitment.

NOTE 10 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	$	7,460
Employment costs	$	1,229
Communications	$	5,437
Facility costs	$	6,423
Transportation – buses	$	18,342
Repairs and maintenance	$	45,796

NOTE 10 EXCESS EXPENDITURES OVER APPROPRIATIONS (cont'd)

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

NOTE 11 RESTATEMENT

The School has restated its July 1, 2016 net position in its governmental activities to record the net OPEB liability and deferred outflows at June 30, 2017 in accordance with the requirements of GASB Statement No. 75, as discussed in Note 1. The net result of this change is a decrease of $6,614,786 in governmental activities net position.

NOTE 12 DEFICIT NET POSITION

For governmental activities, the unrestricted net deficit amount of $6,802,151 includes the effect of deferring the recognition of pension and OPEB contributions made subsequent to the measurement date of the net pension liability and net OPEB liability, and the deferred outflows related to the pension and OPEB plans. This is offset by the School's actuarially determined pension liability and OPEB liability, and the deferred inflows related to the pension and OPEB plans.

NOTE 13 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 28, 2018, 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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Charges to school districts	$ 2,172,723	$ 2,295,822	$ 2,285,459	$ (10,363)
State aid	3,974,162	4,194,310	4,195,777	1,467
Federal aid	152,907	153,211	126,738	(26,473)
Earnings on cash and investments	-	-	10,667	10,667
Food service revenue	66,651	66,650	59,974	(6,676)
Contributions	50,000	350,190	361,733	11,543
School programs	80,000	100,500	109,593	9,093
TOTAL REVENUES	6,496,443	7,160,683	7,149,941	(10,742)
EXPENDITURES				
Current:				
Salaries	2,919,390	2,946,390	2,953,850	(7,460)
Employment costs	1,363,370	1,363,369	1,364,598	(1,229)
Travel	-	-	-	-
Contractual services	340,200	388,200	368,245	19,955
Communications	5,000	5,000	10,437	(5,437)
Public utilities services	225,000	240,000	193,991	46,009
Insurance	32,000	28,745	28,745	-
Facility costs	930,391	930,391	936,814	(6,423)
Transportation - buses	395,200	395,200	413,542	(18,342)
Repairs and maintenance	90,000	90,000	135,796	(45,796)
Supplies and materials	215,651	220,651	219,500	1,151
Capital outlays:				
Property	250,000	950,190	802,634	147,556
Equipment	-	-	-	-
TOTAL EXPENDITURES	6,766,202	7,558,136	7,428,152	129,984
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(269,759)	(397,453)	(278,211)	119,242
OTHER FINANCING SOURCES (USES)				
Contingency	(147,938)	(154,803)	-	154,803
Appropriated fund balance	417,697	552,256	-	(552,256)
TOTAL OTHER FINANCING SOURCES	269,759	397,453	-	(397,453)
NET CHANGE IN FUND BALANCE	-	-	(278,211)	(278,211)
FUND BALANCE, BEGINNING OF YEAR	1,308,787	1,308,787	1,308,787	-
FUND BALANCE, END OF YEAR	$ 1,308,787	$ 1,308,787	$ 1,030,576	$ (278,211)

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

FIRST STATE MONTESSORI ACADEMY, INC.
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

REQUIRED SUPPLEMENTARY INFORMATION

	MEASUREMENT DATE			
PROPORTIONATE SHARE OF NET PENSION LIABILITY	JUNE 30, 2017	JUNE 30, 2016	JUNE 30, 2015	JUNE 30, 2014
School's proportion of the net pension liability	0.1236%	0.0784%	0.0577%	0.0011%
School's proportion of the net pension liability - dollar value	$ 1,812,210	$ 1,181,416	$ 384,095	$ 3,968
School's covered employee payroll	$ 2,408,111	$ 1,495,188	$ 1,076,757	$ 19,707
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	75.25%	79.01%	35.67%	20.13%
Plan fiduciary net position as a percentage of the total pension liability	85.31%	84.11%	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.
SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS

REQUIRED SUPPLEMENTARY INFORMATION

CONTRIBUTIONS	JUNE 30, 2018	JUNE 30, 2017	JUNE 30, 2016	JUNE 30, 2015
Contractually required contribution	$ 294,859	$ 230,744	$ 143,239	$ 102,938
Contributions in relation to the contractually required contribution	294,859	230,744	143,239	102,938
Contribution excess	$ -	$ -	$ -	$ -
School's covered employee payroll	$ 2,408,601	$ 2,408,601	$ 1,495,188	$ 1,076,757
Contributions as a percentage of covered-employee payroll	12.24%	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.

FIRST STATE MONTESSORI ACADEMY, INC.
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
STATE OF DELAWARE EMPLOYEES' OPEB PLAN
FOR THE YEAR ENDED JUNE 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

PROPORTIONATE SHARE OF NET OPEB LIABILITY	MEASUREMENT DATE JUNE 30, 2017
School's proportion of the net OPEB liability	0.1208%
School's proportion of the net OPEB liability - dollar value	$ 9,971,884
School's covered employee payroll	$ 2,472,278
School's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	403.35%
Plan fiduciary net position as a percentage of the total OPEB liability	4.13%

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

FIRST STATE MONTESSORI ACADEMY, INC.
SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
STATE OF DELAWARE EMPLOYEES' OPEB PLAN
FOR THE YEAR ENDED JUNE 30, 2018

REQUIRED SUPPLEMENTARY INFORMATION

CONTRIBUTIONS		JUNE 30, 2018
Contractually required contribution	$	312,034
Contributions in relation to the contractually required contribution		312,034
Contribution excess	$	-
School's covered employee payroll	$	3,044,234
Contributions as a percentage of covered-employee payroll		10.25%

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

SUPPLEMENTARY INFORMATION

FIRST STATE MONTESSORI ACADEMY, INC.
COMBINING BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2018

	State Allocation	Local Funding	Federal Funding	Total
ASSETS				
Cash and pooled cash	$ 93,536	$ 1,585,440	$ -	$ 1,678,976
Accounts receivable	-	-	11,992	11,992
Security deposit	-	107,705	-	107,705
TOTAL ASSETS	$ 93,536	$ 1,693,145	$ 11,992	$ 1,798,673
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	$ -	$ 45,571	$ -	$ 45,571
Accrued salaries and employment costs	-	710,534	11,992	722,526
TOTAL LIABILITIES	-	756,105	11,992	768,097
FUND BALANCES:				
Nonspendable	-	107,705	-	107,705
Unassigned	93,536	829,335	-	922,871
TOTAL FUND BALANCES	93,536	937,040	-	1,030,576
TOTAL LIABILITIES AND FUND BALANCES	$ 93,536	$ 1,693,145	$ 11,992	$ 1,798,673

FIRST STATE MONTESSORI ACADEMY, INC.
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	State Allocation	Local Funding	Federal Funding	Total
REVENUES				
Charges to school districts	$ -	$ 2,285,459	$ -	$ 2,285,459
State aid	4,195,777	-	-	4,195,777
Federal aid	-	-	126,738	126,738
Earnings on cash and investments	-	10,667	-	10,667
Food service revenue	-	23,379	36,595	59,974
Contributions	-	361,733	-	361,733
School programs	-	109,593	-	109,593
TOTAL REVENUES	4,195,777	2,790,831	163,333	7,149,941
EXPENDITURES				
Current:				
Instructional services	2,926,625	1,326,220	126,738	4,379,583
Operation and maintenance of facilities	974,664	723,997	-	1,698,661
Transportation	203,839	205,033	-	408,872
Food service	18,737	83,070	36,595	138,402
Capital outlays:				
Property	54,447	748,187	-	802,634
TOTAL EXPENDITURES	4,178,312	3,086,507	163,333	7,428,152
NET CHANGE IN FUND BALANCES	17,465	(295,676)	-	(278,211)
FUND BALANCES, BEGINNING OF YEAR	76,071	1,232,716	-	1,308,787
FUND BALANCES, END OF YEAR	$ 93,536	$ 937,040	$ -	$ 1,030,576

FIRST STATE MONTESSORI ACADEMY, INC.
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

EXPENDITURES	
Current:	
Salaries	$ 2,953,850
Employment costs	1,364,598
Contractual services	368,245
Professional development	10,437
Public utilities services	193,991
Insurance	28,745
Facility costs	936,814
Transportation - buses	413,542
Repairs and maintenance	135,796
Supplies and materials	219,500
Capital outlays:	
Property	802,634
TOTAL EXPENDITURES	$ 7,428,152

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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 28, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 28, 2018.

<u>Internal Control Over Financial Reporting</u>

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.

BARBACANE THORNTON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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 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