



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

FINANCIAL STATEMENTS

JUNE 30, 2019

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

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
Statements of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheets - Governmental Fund	14
Reconciliation of Balance Sheet - Governmental Fund to Statement of Net Position	15
Statements of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	16
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund to Statement of Activities	17
Notes to Financial Statements	18
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Governmental Fund	36
Schedule of the School's Proportionate Share of the Net Pension Liability	37
Schedule of School Pension Contributions	38
Schedule of the School's Proportionate Share of the Net OPEB Liability	39
Schedule of School OPEB Contributions	40

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

TABLE OF CONTENTS

	<u>PAGE</u>
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Governmental Fund	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund	42
Schedule of Expenditures by Natural Classification - Governmental Fund	43
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44



INDEPENDENT AUDITOR'S REPORT

September 30, 2019

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, 2019, 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

Board of Directors
First State Montessori Academy, Inc.

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.

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, 2019, 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 First State Montessori Academy, Inc.'s 2018 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 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 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 36 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
First State Montessori Academy, Inc.

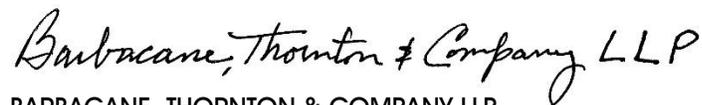
Other Information

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 30, 2019, 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FIRST STATE MONTESSORI ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
YEAR ENDED JUNE 30, 2019**

Our discussion and analysis of the First State Montessori Academy's ("the School") financial performance provides an overview of the financial activities for the year ended June 30, 2019. 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 2019 was the School's fifth year of operations. During the year, the net position of the School decreased by \$700,027, or 12.46 percent. Program revenues accounted for \$510,378, or 6.48 percent of total revenues, and the general revenues accounted for \$7,363,577, or 93.52 percent of total revenues. Also, the general fund reported a positive fund balance of \$782,575.

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

**FIRST STATE MONTESSORI ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2019**

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 \$6,316,377 at the close of the fiscal year. The largest portion of the School's total assets is cash and pooled cash (47.25 percent); capital assets net of depreciation, including construction-in-progress (49.36 percent); and other assets (3.39 percent), which 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 2019 and 2018 follows:

**Table 1
NET POSITION
JUNE 30, 2019 AND 2018**

	Governmental Activities	
	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current and Other Assets:		
Cash and pooled cash	\$ 1,731,956	\$ 1,678,976
Other current assets	16,735	11,992
Total Current Assets	<u>1,748,691</u>	<u>1,690,968</u>
Noncurrent Assets:		
Security deposit	107,705	107,705
Construction-in-progress	1,402,953	763,329
Capital assets, net of depreciation	406,429	422,472
Total Noncurrent Assets	<u>1,917,087</u>	<u>1,293,506</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	1,521,400	1,462,472
Deferred outflows - OPEB	4,498,687	3,704,733
Total Deferred Outflows of Resources	<u>6,020,087</u>	<u>5,167,205</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>9,685,865</u>	<u>8,151,679</u>

**FIRST STATE MONTESSORI ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2019**

**Table 1
NET POSITION
JUNE 30, 2019 AND 2018**

(cont'd)	Governmental Activities	
	2019	2018
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
Current Liabilities:		
Accounts payable	265,482	45,571
Accrued salaries and related costs	808,339	722,526
Total Current Liabilities	1,073,821	768,097
Noncurrent Liabilities:		
Net pension liability	1,840,653	1,812,210
Net OPEB liability	11,404,995	9,971,884
 TOTAL LIABILITIES	 14,319,469	 12,552,191
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	104,589	31,951
Deferred inflows - OPEB	1,578,184	1,183,887
Total Deferred Inflows of Resources	1,682,773	1,215,838
 NET POSITION (DEFICIT)		
Investment in capital assets	1,809,382	1,185,801
Unrestricted (deficit)	(8,125,759)	(6,802,151)
 TOTAL NET POSITION (DEFICIT)	 \$ (6,316,377)	 \$ (5,616,350)

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 2019 and 2018.

**Table 2
CHANGES IN NET POSITION
FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

	Governmental Activities	
	2019	2018
REVENUES		
General revenue:		
Charges to school districts	\$ 2,548,733	\$ 2,285,459
Payments from primary government	4,771,572	4,195,777
Earnings on cash and investments	43,272	10,667
Program revenue:		
Charges for services	150,356	132,972
Operating grants and contributions	360,022	525,066
TOTAL REVENUES	7,873,955	7,149,941

**FIRST STATE MONTESSORI ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2019**

**Table 2
CHANGES IN NET POSITION
FISCAL YEARS ENDED JUNE 30, 2019 AND 2018**

(cont'd)	Governmental Activities	
	2019	2018
EXPENSES		
Instructional services	5,812,927	5,457,719
Support services:		
Operation and maintenance of facilities	2,230,925	1,715,796
Transportation	441,236	408,872
Food service	88,894	138,402
TOTAL EXPENSES	8,573,982	7,720,789
CHANGE IN NET POSITION	\$ (700,027)	\$ (570,848)

Governmental Activities

The net position of the School's governmental activities decreased by \$700,027, and unrestricted net position reflects a negative balance of \$8,125,759. 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.

	2019		2018	
	Total Cost	Net Cost	Total Cost	Net Cost
<i>Governmental Activities</i>				
Instructional services	\$ 5,812,927	\$ 5,364,673	\$ 5,457,719	\$ 4,859,655
Support services:				
Operation and maintenance of facilities	2,230,925	2,230,925	1,715,796	1,715,796
Transportation	441,236	441,236	408,872	408,872
Food service	88,894	26,770	138,402	78,428
Total Expenses	\$ 8,573,982	\$ 8,063,604	\$ 7,720,789	\$ 7,062,751

**FIRST STATE MONTESSORI ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2019**

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$8,063,604 of support.

THE SCHOOL'S FUNDS

The governmental fund (as presented on the balance sheet on page 14) reported a fund balance of \$782,575, which represents a decrease of \$248,001 from the prior year fund balance amount of \$1,030,576. The schedule below presents the makeup of the total fund balance amount at year end.

	Governmental Fund	
	2019	2018
FUND BALANCE		
Nonspendable	\$ 107,705	\$ 107,705
Unassigned	674,870	922,871
Total Fund Balance	\$ 782,575	\$ 1,030,576

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

	2019	2018
REVENUES		
Charges to school districts	\$ 2,548,733	\$ 2,285,459
State aid	4,771,572	4,195,777
Federal aid	201,328	126,738
Earnings on cash and investments	43,272	10,667
Food service revenue	62,124	59,974
Contributions	117,951	361,733
School programs	128,975	109,593
TOTAL REVENUES	7,873,955	7,149,941
EXPENDITURES		
Current:		
Instructional services	4,728,089	4,379,583
Operation and maintenance of facilities	2,213,790	1,698,661
Transportation	441,236	408,872
Food service	88,894	138,402

**FIRST STATE MONTESSORI ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2019**

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

(cont'd)	2019	2018
Capital outlays:		
Property	639,624	802,634
Equipment	10,323	-
TOTAL EXPENDITURES	8,121,956	7,428,152
 NET CHANGE IN FUND BALANCE	 (248,001)	 (278,211)
FUND BALANCE, BEGINNING OF YEAR	1,030,576	1,308,787
FUND BALANCE, END OF YEAR	\$ 782,575	\$ 1,030,576

The largest revenue reported by the School for the year was for aid received from the State of Delaware, accounting for 60.60 percent of total revenues. Charges to local school districts for students attending the School was also significant, accounting for 32.37 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

State Aid Revenue

A favorable variance of \$191,602 was realized due to the addition of the Student Success Block Grant and School Safety and Security Grant, as well as an increase in funding for fiscal year 2019 operations.

Food Service Revenue

An unfavorable variance of \$13,430 was realized due to a lower participation rate in the School's lunch program than initially expected.

**FIRST STATE MONTESSORI ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2019**

Contributions

An unfavorable variance of \$14,247 is due primarily to less donations and grants being received than the amount that was expected.

School Programs

A favorable variance of \$28,975 is due to additional field trips and other school activities in excess of the projected amounts.

Contractual Services

A favorable variance of \$206,084 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 \$21,899 is due primarily to the increase in utility costs for the School's second building being realized below the estimated amount.

Facility Costs

An unfavorable variance \$126,504 in primarily due to rent costs for the School being above estimated amounts.

Repairs and Maintenance

A favorable variance of \$57,335 was realized due to less repairs being needed as larger capital improvements are being made to the School.

Supplies and Materials

An unfavorable variance of \$153,964 was realized due additional supplies needed for the school year beyond the budgeted amount.

Capital Outlays – Property

An unfavorable variance of \$177,680 was realized due more construction activity commencing during the year related to the capital improvement plan.

CAPITAL ASSETS

The School has \$1,809,382 invested in capital assets, net of depreciation, including \$1,402,953 in construction-in-progress. During the current year, the School made capital improvements to its leasehold and fixtures totaling \$649,947.

**FIRST STATE MONTESSORI ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2019**

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, 2019.

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 2019 to a total enrollment of 560 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, 2019 AND 2018

	Governmental Activities	
	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and pooled cash	\$ 1,731,956	\$ 1,678,976
Accounts receivable	16,735	11,992
Total Current Assets	1,748,691	1,690,968
NONCURRENT ASSETS:		
Security deposit	107,705	107,705
Construction-in-progress	1,402,953	763,329
Capital assets, net of depreciation	406,429	422,472
Total Noncurrent Assets	1,917,087	1,293,506
TOTAL ASSETS	3,665,778	2,984,474
 DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows - pension	1,521,400	1,462,472
Deferred outflows - OPEB	4,498,687	3,704,733
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,020,087	5,167,205
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
	\$ 9,685,865	\$ 8,151,679
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 265,482	\$ 45,571
Accrued salaries and related costs	808,339	722,526
Total Current Liabilities	1,073,821	768,097
NONCURRENT LIABILITIES:		
Net pension liability	1,840,653	1,812,210
Net OPEB liability	11,404,995	9,971,884
Total Noncurrent Liabilities	13,245,648	11,784,094
TOTAL LIABILITIES	14,319,469	12,552,191
 DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows - pension	104,589	31,951
Deferred inflows - OPEB	1,578,184	1,183,887
TOTAL DEFERRED INFLOWS OF RESOURCES	1,682,773	1,215,838
 NET POSITION (DEFICIT):		
Investment in capital assets	1,809,382	1,185,801
Unrestricted (deficit)	(8,125,759)	(6,802,151)
TOTAL NET DEFICIT	(6,316,377)	(5,616,350)
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
	\$ 9,685,865	\$ 8,151,679

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, 2019
(With Summarized Comparative Data for the Year Ended June 30, 2018)

	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position (Deficit)
	Charges for Services	Operating Grants and Contributions	Totals	2019
GOVERNMENTAL ACTIVITIES				
Instructional services	\$ (5,812,927)	\$ 319,279	\$ -	\$ (4,859,655)
Support services:				
Operation and maintenance of facilities	(2,230,925)	-	-	(1,715,796)
Transportation	(441,236)	-	-	(408,872)
Food service	(88,894)	40,743	-	(78,428)
TOTAL GOVERNMENTAL ACTIVITIES	\$ (8,573,982)	\$ 360,022	\$ -	(7,062,751)
GENERAL REVENUES				
Charges to school districts				2,285,459
Payments from primary government				4,195,777
Earnings on cash and investments				10,667
TOTAL GENERAL REVENUES				6,491,903
CHANGE IN NET DEFICIT				(700,027)
NET DEFICIT, BEGINNING OF YEAR				(5,045,502)
NET DEFICIT, END OF YEAR				\$ (6,316,377)

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

**FIRST STATE MONTESSORI ACADEMY, INC.
BALANCE SHEETS - GOVERNMENTAL FUND
JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and pooled cash	\$ 1,731,956	\$ 1,678,976
Accounts receivable	16,735	11,992
Security deposit	<u>107,705</u>	<u>107,705</u>
TOTAL ASSETS	<u><u>\$ 1,856,396</u></u>	<u><u>\$ 1,798,673</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$ 265,482	\$ 45,571
Accrued salaries and related benefits	<u>808,339</u>	<u>722,526</u>
Total Liabilities	<u><u>1,073,821</u></u>	<u><u>768,097</u></u>
FUND BALANCE:		
Nonspendable	107,705	107,705
Unassigned	<u>674,870</u>	<u>922,871</u>
Total Fund Balance	<u><u>782,575</u></u>	<u><u>1,030,576</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 1,856,396</u></u>	<u><u>\$ 1,798,673</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, 2019**

FUND BALANCE - GOVERNMENTAL FUND		\$ 782,575
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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.		1,809,382
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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	\$ (1,840,653)	
Net OPEB liability	<u>(11,404,995)</u>	(13,245,648)

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 outflows - pension	1,521,400	
Deferred outflows - OPEB	4,498,687	
Deferred inflows - pension	(104,589)	
Deferred inflows - OPEB	<u>(1,578,184)</u>	<u>4,337,314</u>

TOTAL NET DEFICIT - GOVERNMENTAL ACTIVITIES		<u>\$ (6,316,377)</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, 2019 AND 2018

	2019	2018
REVENUES		
Charges to school districts	\$ 2,548,733	\$ 2,285,459
State aid	4,771,572	4,195,777
Federal aid	201,328	126,738
Earnings on cash and investments	43,272	10,667
Food service revenue	62,124	59,974
Contributions	117,951	361,733
School programs	128,975	109,593
TOTAL REVENUES	7,873,955	7,149,941
EXPENDITURES		
Current:		
Instructional services	4,728,089	4,379,583
Operation and maintenance of facilities	2,213,790	1,698,661
Transportation	441,236	408,872
Food service	88,894	138,402
Capital outlays:		
Property	639,624	802,634
Equipment	10,323	-
TOTAL EXPENDITURES	8,121,956	7,428,152
NET CHANGE IN FUND BALANCE	(248,001)	(278,211)
FUND BALANCE, BEGINNING OF YEAR	1,030,576	1,308,787
FUND BALANCE, END OF YEAR	\$ 782,575	\$ 1,030,576

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, 2019

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ (248,001)

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	\$ 649,947	
Depreciation expense	<u>(26,366)</u>	623,581

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. (42,153)

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 OPEB expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (1,033,454)

CHANGE IN NET DEFICIT - GOVERNMENTAL ACTIVITIES \$ (700,027)

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.

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.

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.

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, 2019, the School did not have any outstanding encumbrances.

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 \$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.

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.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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

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 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 and OPEB liabilities, and certain other items which represent differences related to changes in the net pension and OPEB liabilities which will be amortized over future periods.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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

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.

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, 2019, the School has a cash equivalent balance of \$1,731,956. Of that amount, \$1,726,519 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, 2019, the reported amount of the School's deposits not held with the State Treasurer's Office was \$5,437, and the bank balance was \$5,437. All of the balance was covered by federal depository insurance.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 is as follows:

	<u>Balances 6/30/18</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances 6/30/19</u>
Governmental Activities:				
Construction-in-progress	\$ 763,329	\$ 639,624	\$ -	\$1,402,953
Capital assets being depreciated:				
Leasehold improvements	450,788	-	-	450,788
Furniture and equipment	43,574	10,323	-	53,897
Total capital assets being depreciated	494,362	10,323	-	504,685
Accumulated depreciation	(71,890)	(26,366)	-	(98,256)
Total capital assets being depreciated, net	422,472	(16,043)	-	406,429
Governmental Activities, Net	<u>\$1,185,801</u>	<u>\$ 623,581</u>	<u>\$ -</u>	<u>\$1,809,382</u>

Depreciation expense was charged to the following activities:

Governmental Activities:	
Instructional services	\$ 9,231
Operation and maintenance of facilities	<u>17,135</u>
	<u>\$ 26,366</u>

NOTE 4 FUND BALANCE

As of June 30, 2019, fund balance is composed of the following:

Nonspendable:	
Security deposit	\$ 107,705
Unassigned	<u>674,870</u>
Total Fund Balance	<u>\$ 782,575</u>

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2019. 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.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2019, the rate of the employer contribution was 11.83 percent of covered payroll. The School's contribution to PERS for the year ended June 30, 2019 was \$390,842.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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 postretirement 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, 2019, the School reported a liability of \$1,840,653 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2019, the School's proportion was 0.1425 percent, which represents an increase from the prior measurement date of 0.0189 percent.

For the year ended June 30, 2019, the School recognized pension expense of \$432,995. At June 30, 2019, 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	\$ -	\$ 78,024
Changes of assumptions	320,479	-
Difference between actual and expected experience	96,196	26,565
Changes in proportions	713,883	-
Contributions subsequent to the date of measurement	390,842	-
	<u>\$1,521,400</u>	<u>\$ 104,589</u>

An amount of \$390,842 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2018 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. 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:

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Year Ending June 30,

2020	\$ 369,172
2021	285,290
2022	80,899
2023	132,402
2024	<u>158,206</u>
	<u>\$1,025,969</u>

Actuarial Assumptions

The total pension liability as of the June 30, 2019 measurement date was determined by an actuarial valuation as of June 30, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. 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. 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

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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%	30.7%
International equity	5.7%	13.9%
Fixed income	2.0%	23.3%
Alternative investments	7.8%	24.4%
Cash and equivalents	0.0%	7.7%

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	\$ 3,571,376	\$ 1,840,653	\$ 386,869

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2019. 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.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Contributions

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, 2019, the rate of the employer contribution was 11.79 percent of covered payroll. The School's contribution to the Plan for the year ended June 30, 2019 was \$389,541.

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

At June 30, 2019, the School reported a liability of \$11,404,995 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, 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, 2017 to June 30, 2018. 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, 2018, the School's proportion was 0.1389 percent, which was an increase of 0.0181 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School recognized OPEB expense of \$1,422,995. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 28,656
Changes in proportions	4,109,146	-
Changes in assumptions	-	1,549,528
Contributions subsequent to the date of measurement	<u>389,541</u>	<u>-</u>
	<u>\$4,498,687</u>	<u>\$1,578,184</u>

An amount of \$389,541 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2018 measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts will be

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

reported as deferred outflows of resources and deferred inflows of resources related to OPEB, and will be recognized in OPEB expense as follows:

Year Ending June 30,

2020	\$ 449,824
2021	449,824
2022	449,824
2023	455,500
2024	<u>725,990</u>
	<u>\$2,530,962</u>

Actuarial Assumptions

The total OPEB liability as of the June 30, 2018 measurement date was determined by an actuarial valuation as of June 30, 2017, and update procedures were used to roll forward the total pension liability to June 30, 2018. These actuarial valuations used the following actuarial assumptions:

- Discount rate – 3.87 percent
- Salary increases – 3.25 percent
- Healthcare cost trend rates – 6.80 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. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the actual experience deviates, the larger the impact on future financial statements.

Discount Rate

The discount rate to measure the total OPEB liability was 3.58 percent at the beginning of the current measurement period and 3.87 percent at the end, based on the Bond Buyer GO 20-Bond Municipal Bond Index. The projection of cash flows used to determine the discount rate

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

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 rate used at the June 30, 2018 measurement dates is 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 3.87 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 (2.87 percent) or one percentage point higher (4.87 percent) than the current rate.

	1% Decrease <u>2.87%</u>	Current Rate Discount Rate <u>3.87%</u>	1% Increase <u>4.87%</u>
School's proportionate share of the net OPEB liability	\$ 13,570,348	\$ 11,404,995	\$ 9,700,437

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 6.8 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 (5.8 percent) or one percentage point higher (7.8 percent) than the current rate.

	1% Decrease <u>5.8%</u>	Current Rate Healthcare Trend Rate <u>6.8%</u>	1% Increase <u>7.8%</u>
School's proportionate share of the net OPEB liability	\$ 9,709,743	\$ 11,404,995	\$ 13,466,972

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.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

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,

2020	\$ 1,016,520
2021	1,031,892
2022	1,047,535
2023	1,063,453
2024	1,079,651
2025 - 2026	<u>1,267,500</u>
	<u>\$ 6,506,551</u>

Total rental costs incurred for the year ended June 30, 2019 were \$913,608.

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.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 COMMITMENTS AND CONTINGENCIES (cont'd)

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, 2019, the School was party to a fixed fee construction contracts in the amount of \$1,627,178 for building renovations, of which \$1,104,035 in expenditures had been incurred by June 30, 2019, resulting in a remaining construction commitment of \$523,143. All payments under this contract are reported as construction-in-progress on the statement of net position as of June 30, 2019. Additionally, construction-in-progress includes \$298,918 which is not subject to a commitment.

NOTE 10 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	\$	39,004
Insurance	\$	10,899
Communications	\$	3,075
Facility costs	\$	126,504
Transportation - buses	\$	14,636
Supplies and materials	\$	153,964
Capital outlay - property	\$	177,680
Capital outlay - equipment	\$	10,323

The excess expenditures were covered by other current year expenditure appropriations that were under budget, and overall revenues coming in higher than budgeted.

NOTE 11 DEFICIT NET POSITION

For governmental activities, the unrestricted net deficit amount of \$8,125,759 includes the effect of deferring the recognition of pension and OPEB contributions made subsequent to the measurement date of the net pension OPEB liabilities, and the deferred outflows related to the pension and OPEB plans. This is offset by the School's actuarially determined pension and OPEB liabilities, and the deferred inflows related to the pension and OPEB plans.

FIRST STATE MONTESSORI ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 SUBSEQUENT EVENTS

On August 23, 2019, the School issued Charter School Revenue Bond Series 2019A in the amount of \$12,485,000 and Series 2019B in the amount of \$160,000. This debt is scheduled to mature in five 10-year increments with the final maturity being in the year 2054. The proceeds of the issuance will be used to finance all or a portion of the costs of acquisition of, and capital improvements to, the school building located at 1000 North French Street, Wilmington, DE 19801 and the school building located at 920 North French Street, Wilmington, DE 19801.

The School has evaluated all subsequent events through September 30, 2019, 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, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges to school districts	\$ 2,453,146	\$ 2,551,062	\$ 2,548,733	\$ (2,329)
State aid	4,416,711	4,579,970	4,771,572	191,602
Federal aid	172,293	187,084	201,328	14,244
Earnings on cash and investments	-	-	43,272	43,272
Food service revenue	75,554	75,554	62,124	(13,430)
Contributions	100,766	132,198	117,951	(14,247)
School programs	92,920	100,000	128,975	28,975
TOTAL REVENUES	<u>7,311,390</u>	<u>7,625,868</u>	<u>7,873,955</u>	<u>248,087</u>
EXPENDITURES				
Current:				
Salaries	3,335,213	3,338,093	3,377,097	(39,004)
Employment costs	1,592,667	1,622,610	1,556,659	65,951
Contractual services	596,304	639,565	433,481	206,084
Communications	5,000	5,000	8,075	(3,075)
Public utilities services	250,000	260,000	238,101	21,899
Insurance	34,000	30,720	41,619	(10,899)
Facility costs	923,391	931,608	1,058,112	(126,504)
Transportation - buses	446,546	426,600	441,236	(14,636)
Repairs and maintenance	90,000	120,000	62,665	57,335
Supplies and materials	91,000	101,000	254,964	(153,964)
Capital outlays:				
Property	461,944	461,944	639,624	(177,680)
Equipment	-	-	10,323	(10,323)
TOTAL EXPENDITURES	<u>7,826,065</u>	<u>7,937,140</u>	<u>8,121,956</u>	<u>(184,816)</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(514,675)</u>	<u>(311,272)</u>	<u>(248,001)</u>	<u>63,271</u>
OTHER FINANCING SOURCES (USES)				
Contingency	(138,412)	(144,265)	-	144,265
Appropriated fund balance	417,697	552,256	-	(552,256)
TOTAL OTHER FINANCING SOURCES	<u>279,285</u>	<u>407,991</u>	<u>-</u>	<u>(407,991)</u>
NET CHANGE IN FUND BALANCE	(235,390)	96,719	(248,001)	(344,720)
FUND BALANCE, BEGINNING OF YEAR	<u>1,030,576</u>	<u>1,030,576</u>	<u>1,030,576</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 795,186</u>	<u>\$ 1,127,295</u>	<u>\$ 782,575</u>	<u>\$ (344,720)</u>

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
FOR THE YEAR ENDED JUNE 30, 2019

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>MEASUREMENT DATE</u>		
	<u>JUNE 30, 2018</u>	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>
School's proportion of the net pension liability	0.1425%	0.1236%	0.0784%
School's proportion of the net pension liability - dollar value	\$ 1,840,653	\$ 1,812,210	\$ 1,181,416
School's covered employee payroll	\$ 2,829,741	\$ 2,408,111	\$ 1,495,188
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	65.05%	75.25%	79.01%
Plan fiduciary net position as a percentage of the total pension liability	87.49%	85.31%	84.11%
			92.67%
			0.0577%
			\$ 384,095
			\$ 1,076,757

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
FOR THE YEAR ENDED JUNE 30, 2019**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2019</u>	<u>JUNE 30, 2018</u>	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>
Contractually required contribution	\$ 390,842	\$ 294,859	\$ 230,744	\$ 143,239
Contributions in relation to the contractually required contribution	<u>390,842</u>	<u>294,859</u>	<u>230,744</u>	<u>143,239</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 3,303,821	\$ 2,829,741	\$ 2,408,111	\$ 1,495,188
Contributions as a percentage of covered-employee payroll	11.83%	10.42%	9.58%	9.58%

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, 2019**

<u>PROPORTIONATE SHARE OF NET OPEB LIABILITY</u>	<u>MEASUREMENT DATE</u>	
	<u>JUNE 30, 2018</u>	<u>JUNE 30, 2017</u>
School's proportion of the net OPEB liability	0.1389%	0.1208%
School's proportion of the net OPEB liability - dollar value	\$ 11,404,995	\$ 9,971,884
School's covered employee payroll	\$ 2,829,741	\$ 2,408,111
School's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	403.04%	414.10%
Plan fiduciary net position as a percentage of the total OPEB liability	4.44%	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, 2019**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2019</u>	<u>JUNE 30, 2018</u>
Contractually required contribution	\$ 389,541	\$ 312,034
Contributions in relation to the contractually required contribution	<u>389,541</u>	<u>312,034</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 3,303,821	\$ 2,829,741
Contributions as a percentage of covered-employee payroll	11.79%	11.03%

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, 2019**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Total</u>
ASSETS				
Cash and pooled cash	\$ 44,579	\$ 1,687,377	\$ -	\$ 1,731,956
Accounts receivable	-	-	16,735	16,735
Security deposit	-	107,705	-	107,705
TOTAL ASSETS	<u>\$ 44,579</u>	<u>\$ 1,795,082</u>	<u>\$ 16,735</u>	<u>\$ 1,856,396</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 265,482	\$ -	\$ 265,482
Accrued salaries and employment costs	-	791,604	16,735	808,339
TOTAL LIABILITIES	<u>-</u>	<u>1,057,086</u>	<u>16,735</u>	<u>1,073,821</u>
FUND BALANCES:				
Nonspendable	-	107,705	-	107,705
Unassigned	44,579	630,291	-	674,870
TOTAL FUND BALANCES	<u>44,579</u>	<u>737,996</u>	<u>-</u>	<u>782,575</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 44,579</u>	<u>\$ 1,795,082</u>	<u>\$ 16,735</u>	<u>\$ 1,856,396</u>

FIRST STATE MONTESSORI ACADEMY, INC.
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	State Allocation	Local Funding	Federal Funding	Total
REVENUES				
Charges to school districts	\$ -	\$ 2,548,733	\$ -	\$ 2,548,733
State aid	4,771,572	-	-	4,771,572
Federal aid	-	-	201,328	201,328
Earnings on cash and investments	-	43,272	-	43,272
Food service revenue	-	21,381	40,743	62,124
Contributions	-	117,951	-	117,951
School programs	-	128,975	-	128,975
TOTAL REVENUES	<u>4,771,572</u>	<u>2,860,312</u>	<u>242,071</u>	<u>7,873,955</u>
EXPENDITURES				
Current:				
Instructional services	3,608,515	918,246	201,328	4,728,089
Operation and maintenance of facilities	741,251	1,472,539	-	2,213,790
Transportation	90,664	350,572	-	441,236
Food service	750	47,401	40,743	88,894
Capital outlays:				
Property	205,029	434,595	-	639,624
Equipment	-	10,323	-	10,323
TOTAL EXPENDITURES	<u>4,646,209</u>	<u>3,233,676</u>	<u>• 242,071</u>	<u>8,121,956</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>125,363</u>	<u>(373,364)</u>	<u>-</u>	<u>(248,001)</u>
OTHER FINANCING USES				
Transfers in (out)	<u>(174,320)</u>	<u>174,320</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING USES	<u>(174,320)</u>	<u>174,320</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(48,957)	(199,044)	-	(248,001)
FUND BALANCES, BEGINNING OF YEAR	<u>93,536</u>	<u>937,040</u>	<u>-</u>	<u>1,030,576</u>
FUND BALANCES, END OF YEAR	<u>\$ 44,579</u>	<u>\$ 737,996</u>	<u>\$ -</u>	<u>\$ 782,575</u>

**FIRST STATE MONTESSORI ACADEMY, INC.
 SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2019**

EXPENDITURES

Current:

Salaries	\$ 3,377,097
Employment costs	1,556,659
Contractual services	433,481
Professional development	8,075
Public utilities services	238,101
Insurance	41,619
Facility costs	1,058,112
Transportation - buses	441,236
Repairs and maintenance	62,665
Supplies and materials	254,964

Capital outlays:

Property	639,624
Equipment	<u>10,323</u>

TOTAL EXPENDITURES	<u><u>\$ 8,121,956</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 30, 2019

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, 2019, 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 30, 2019.

Internal Control Over Financial Reporting

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

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

Board of Directors
First State Montessori Academy, Inc.

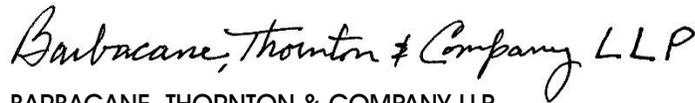
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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