
ACADEMY OF DOVER CHARTER SCHOOL

(A Component Unit of the State of Delaware)

DOVER, DELAWARE

FINANCIAL STATEMENTS

JUNE 30, 2016

ACADEMY OF DOVER CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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ACADEMY OF DOVER CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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INDEPENDENT AUDITOR'S REPORT

September 22, 2016

Board of Directors
Academy of Dover Charter School
Dover, Delaware

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Board of Directors
Academy of Dover Charter School

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

Opinions

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

Report on Summarized Comparative Information

We have previously audited the Academy of Dover Charter School's 2015 financial statements, and we expressed a qualified opinion due to a defalcation of assets on the respective financial statements of the governmental activities and the major fund in our report dated September 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 24, the schedule of the School's proportionate share of the net pension liability on page 25 and the schedule of School contributions on page 26 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Board of Directors
Academy of Dover Charter School

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - general fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

BASIC FINANCIAL STATEMENTS

**ACADEMY OF DOVER CHARTER SCHOOL
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and pooled cash	\$ 473,230	\$ 479,131
Due from other governments	42,264	37,180
Total Current Assets	<u>515,494</u>	<u>516,311</u>
NONCURRENT ASSETS:		
Capital assets, net of depreciation	<u>93,245</u>	<u>113,247</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred pension contributions	121,924	120,498
Deferred pension expense	34,200	43,348
Total Deferred Outflows of Resources	<u>156,124</u>	<u>163,846</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 764,863</u></u>	<u><u>\$ 793,404</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 24,626	\$ 42,291
Accrued salaries and related costs	284,304	255,923
Notes payable	50,000	150,000
Total Current Liabilities	<u>358,930</u>	<u>448,214</u>
NONCURRENT LIABILITIES:		
Notes payable	100,000	150,000
Net pension liability	<u>466,028</u>	<u>259,508</u>
TOTAL LIABILITIES	<u>924,958</u>	<u>857,722</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred pension expense	<u>156,333</u>	<u>412,406</u>
NET POSITION (DEFICIT):		
Net investment in capital assets	93,245	113,247
Unrestricted (Deficit)	<u>(409,673)</u>	<u>(589,971)</u>
TOTAL NET DEFICIT	<u>(316,428)</u>	<u>(476,724)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT	<u><u>\$ 764,863</u></u>	<u><u>\$ 793,404</u></u>

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

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

	Program Revenues			Net (Expense) Revenues and Changes in Net Deficit	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2016	2015
GOVERNMENTAL ACTIVITIES:					
Instructional services	\$ (2,392,915)	\$ -	\$ -	\$ (2,067,580)	\$ (2,032,113)
Support services:					
Operation and maintenance of facilities	(595,013)	-	-	(595,013)	(614,785)
Transportation	(210,000)	210,000	-	-	-
School lunch services	(255,350)	53	-	53	107
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (3,453,278)</u>	<u>\$ 790,685</u>	<u>\$ -</u>	<u>(2,662,540)</u>	<u>(2,646,791)</u>
GENERAL REVENUES:					
Charges to school districts				444,700	455,935
State aid not restricted to specific purposes				2,362,575	2,419,709
Earnings on cash and investments				2,842	3,155
Debt forgiveness				-	321,807
Miscellaneous revenues				12,719	35,717
TOTAL GENERAL REVENUES				<u>2,822,836</u>	<u>3,236,323</u>
CHANGE IN NET POSITION				160,296	589,532
NET DEFICIT, BEGINNING OF YEAR				<u>(476,724)</u>	<u>(1,066,256)</u>
NET DEFICIT, END OF YEAR				<u>\$ (316,428)</u>	<u>\$ (476,724)</u>

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

**ACADEMY OF DOVER CHARTER SCHOOL
BALANCE SHEETS - GOVERNMENTAL FUND
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and pooled cash	\$ 473,230	\$ 479,131
Due from other governments	<u>42,264</u>	<u>37,180</u>
TOTAL ASSETS	<u><u>\$ 515,494</u></u>	<u><u>\$ 516,311</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$ 24,626	\$ 42,291
Accrued salaries and related costs	<u>284,304</u>	<u>255,923</u>
Total Liabilities	<u><u>308,930</u></u>	<u><u>298,214</u></u>
FUND BALANCE:		
Unassigned	<u>206,564</u>	<u>218,097</u>
Total Fund Balance	<u><u>206,564</u></u>	<u><u>218,097</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 515,494</u></u>	<u><u>\$ 516,311</u></u>

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

**ACADEMY OF DOVER CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND TO
STATEMENT OF NET POSITION
JUNE 30, 2016**

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 206,564

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

Capital assets used in the 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. 93,245

Long-term liabilities applicable to the governmental activities are not due and payable in the current year and, accordingly, are not reported as fund liabilities.

Notes payable	\$ (150,000)	
Net pension liability	<u>(466,028)</u>	(616,028)

Deferred inflows and outflows related to the School's net pension liability are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined proportion of the School's amount of the total pension liability, and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows:		
Pension contributions	121,924	
Pension expenses	34,200	
Deferred inflows:		
Pension expenses	<u>(156,333)</u>	<u>(209)</u>

TOTAL NET DEFICIT - GOVERNMENTAL ACTIVITIES \$ (316,428)

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

**ACADEMY OF DOVER CHARTER SCHOOL
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
REVENUES		
Charges to school districts	\$ 444,700	\$ 455,935
State aid	2,572,575	2,631,839
Federal aid	580,685	705,465
Earnings on cash and investments	2,842	3,155
School lunch services - charges for services	53	107
Miscellaneous	12,719	35,717
TOTAL REVENUES	<u>3,613,574</u>	<u>3,832,218</u>
EXPENDITURES		
Current:		
Instruction	2,380,635	2,432,151
Operation and maintenance of facilities	586,402	604,186
Transportation	210,000	212,130
School lunch services	255,350	259,935
Capital outlays:		
Equipment	42,720	103,942
Debt service:		
Principal	150,000	671,807
TOTAL EXPENDITURES	<u>3,625,107</u>	<u>4,284,151</u>
EXTRAORDINARY ITEM		
Debt forgiveness	<u>-</u>	<u>321,807</u>
NET CHANGE IN FUND BALANCE	(11,533)	(130,126)
FUND BALANCE, BEGINNING OF YEAR	<u>218,097</u>	<u>348,223</u>
FUND BALANCE, END OF YEAR	<u>\$ 206,564</u>	<u>\$ 218,097</u>

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

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

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ (11,533)

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 \$25,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$20,002) exceeded capital outlays (\$0). (20,002)

Repayment of the principal of long-term debt consumes the current financial resources of the governmental funds but does not have any affect on net position. 150,000

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. 41,831

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 160,296

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

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy of Dover Charter School ("the School") have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

Reporting Entity

The School, which opened in September 2003, was established to provide a unique learning environment to students. The School is 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 (i.e., the statement of net position and the statement of activities) report information on all 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 1) charges to students who purchase, use, or directly benefit from goods and services provided; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenues not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for the governmental fund.

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

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

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 and capital leases are recorded only when payment is due.

The School reports only one fund, which is the general fund (a governmental fund type).

Capital Assets

Capital assets, which include 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 \$25,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

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

Furniture and equipment	3 - 10 years
Leasehold improvements	10 - 20 years

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The School reports deferred pension contributions resulting from pension contributions subsequent to the measurement date of the net pension liability and certain other items which represent differences related to changes in the net pension liability which will be amortized over future periods. In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents a source of net position that applies to future periods. The School reports certain items which represent differences related to changes in the net pension liability which will be amortized over future periods.

Compensated Absences

Vacation – Employees are not paid for unused vacation upon resignation or termination, unless otherwise stated in the employee contract. Twelve-month salaried employees are entitled up to 12 days of vacation each year.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

Sick and Personal Leave – Employees are not paid for unused sick or personal leave upon resignation or termination. Sick leave allowances are as follows: 10 days for 10-month salaried employees and 12 days for 12-month salaried employees. Three sick days can be taken as personal days for both 10-month and 12-month salaried employees.

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. At the time of separation, the state will pay out any compensated absences, within its guidelines, to the employee.

Fund Balance

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 Principal 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 Principal has provided otherwise in its commitment or assignment actions.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Any remaining portions of net position are reflected as unrestricted. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and then unrestricted resources as they are needed.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. The School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The School did not engage in any unrelated business activities during the fiscal year. Management believes more likely than not that its tax-exempt status and tax positions will be sustained if examined by authorities.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and, therefore, should be read in conjunction with the School's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE B CASH AND POOLED CASH

At June 30, 2016, the School had a cash equivalents balance of \$473,230. Of that amount, \$473,131 was 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, 2016, the reported amount of the School's deposits not held by the State Treasurer's Office was \$99 and the bank balance was \$211, all of which was covered by federal depository insurance.

NOTE C INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units represent receivables for revenues earned by the School. At June 30, intergovernmental receivables are as follows:

<u>Description</u>	
Passed through the State of Delaware:	
Federal government	<u>\$ 42,264</u>
Total Intergovernmental Receivables	<u>\$ 42,264</u>

NOTE D CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
General capital assets being depreciated:				
Furniture and equipment	\$ 636,550	\$ -	\$ -	\$ 636,550
Leasehold improvements	90,389	-	-	90,389
Accumulated depreciation	<u>(613,692)</u>	<u>(20,002)</u>	-	<u>(633,694)</u>
Total capital assets being depreciated, net	<u>\$ 113,247</u>	<u>\$ (20,002)</u>	<u>\$ -</u>	<u>\$ 93,245</u>

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE D CAPITAL ASSETS (cont'd)

For the year ended June 30, 2016, depreciation expense of \$11,391 and \$8,611 was included in instructional services and operation and maintenance of facilities, respectively.

NOTE E NOTES PAYABLE

The School signed three notes in fiscal year 2005 with its management company, Mosaica Education, Inc. ("MEI"). The first note, representing management fees of \$156,856 for fiscal year 2004, bore interest at the rate of six percent. Monthly payments of \$4,772 were scheduled to begin July 1, 2006, with final payment due May 1, 2009. The second, representing management fees of \$185,067 for fiscal year 2005, bore interest at the rate of six percent. Monthly payments of \$5,630 were scheduled to begin July 1, 2006, with final payment due May 1, 2009. The third note, representing repayment of amounts loaned to the School and a buyback of supplies of \$168,468, was a noninterest-bearing note. Monthly payments of \$4,680 were scheduled to begin July 1, 2006, with final payment due May 1, 2009.

On February 1, 2010, the Court of Chancery of the State of Delaware ordered the confirmation of the May 9, 2008 American Arbitration Association's Finding and Award of Arbitrator issued in favor of MEI, as described in Note F. The unpaid balance, including accrued interest, at that point was \$971,807. On June 2, 2015, a Memorandum of Understanding was reached which forgave \$321,807 of the outstanding amount and called for scheduled payments of the remaining amount of \$650,000. (See Note F for terms and maturity.)

Notes payable activity for the year ended June 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Notes payable	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

The future debt payments are as follows:

Year Ending June 30,

2018	\$ 50,000
2019	50,000
2020	<u>50,000</u>
Total	<u>\$ 150,000</u>

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE F TERMINATION OF MANAGEMENT CONTRACT

The School terminated its contract with MEI on June 19, 2006. MEI commenced arbitration, seeking damages for wrongful termination and for payment of the School's promissory notes. After a trial and post-hearing submissions, the Arbitrator awarded \$971,807 plus interest. The attorneys for the School had advised the School and the Delaware Department of Education that Delaware law prohibits the payment of any amount to MEI, notwithstanding the Arbitrator's award and any judgment entered thereon, except to the extent of any surplus remaining at the end of the year in which all educational expenses have been met. On July 1, 2009, the Court of Chancery confirmed the arbitration award, advising the School that its position could be asserted at another time.

On June 2, 2015, the School signed a Memorandum of Understanding ("MOU") with MEI for the purposes of settlement of the Judgement and to satisfy all monies owed, inclusive of interest on the Judgement. The MOU is in the amount of \$650,000, and the parties agreed to a payment schedule calling for \$200,000 to be submitted within 24 hours of signing the MOU; \$150,000 due no later than July 3, 2015, \$150,000 due no later than July 31, 2016, and the final \$150,000 due in three installments of \$50,000, each due no later than July 31, 2017, 2018, and 2019.

NOTE G FUND BALANCE

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

General fund - unassigned	<u>\$ 206,564</u>
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NOTE H OPERATING LEASES

The School leases its facilities under an operating leasing arrangement expiring November 30, 2020. The facility lease started December 1, 2010. The base year rental is \$514,896, inclusive of maintenance charges. The rent and maintenance fees will increase beginning December 1, 2013 and each year thereafter. The lease contains a purchase option that may be exercised by the School by notifying the lessor 90 days prior to the proposed closing date.

Rent expense was \$542,776 for the year ended June 30, 2016, all of which was included in operation and maintenance of facilities.

The future minimum lease obligations are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 553,887
2018	565,195
2019	576,695
2020	588,401
2021	<u>247,215</u>
Total	<u>\$ 2,531,393</u>

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE I SERVICE AGREEMENT

On June 8, 2011, the School entered into an agreement with Innovative School Development Corporation to provide business and project management services. On June 7, 2011, the School entered into an agreement with Innovative School Development Corporation to provide charter renewal support services. Total expenses for the year ended June 30, 2016 was \$38,643.

NOTE J PENSION PLAN

Plan Description

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

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

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

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.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

Vesting

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

Retirement

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

Disability Benefits

Disability benefits for those employees hired before January 1, 2012 are offered using the same calculations as the Service Benefits described above. Employees in this program must have five years of credited service. In lieu of disability pension benefits, over 90 percent of the members of this plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Employees hired on or after January 1, 2012 are also included in the Disability Insurance Program.

Survivor and Burial Benefits

In the event of the death of a member of the Plan, the eligible survivor receives 50 percent of the benefits received under the pension (or 75 percent with a three percent reduction of the benefit). If the employee is an active member of the Plan with at least five years of credited service, the eligible survivor receives 75 percent of the benefit the active employee would have received at age 62.

Burial benefits are established at \$7,000 per plan member.

Contributions

Member Contributions

Employees hired before January 1, 2012 contribute three percent of earnings in excess of \$6,000. Employees hired on or after January 1, 2012 contribute five percent of earnings in excess of \$6,000.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

Employer Contributions

Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2016, the rate of the employer contribution was 9.58 percent of covered payroll. The School's contribution to PERS for the years ended June 30, 2016 was \$121,924.

PRI Contribution

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

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

At June 30, 2016, the School reported a liability of \$466,028 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the net pension liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2015, the School's proportion was 0.0701 percent, which was a decrease of 0.0004 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized a net negative pension expense of \$80,093. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 142,491
Changes in proportions	34,200	3,388
Difference between actual and expected experience	-	10,454
Contributions subsequent to the date of measurement	<u>121,924</u>	<u>-</u>
	<u>\$ 156,124</u>	<u>\$ 156,333</u>

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

An amount of \$121,924 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2015 measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

Year Ending June 30,

2017	\$ (31,552)
2018	(31,551)
2019	(31,551)
2020	(31,551)
2021	<u>4,072</u>
	<u>\$ (122,133)</u>

Actuarial Assumptions

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

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

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

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

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

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

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

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Asset Allocation</u>
Domestic equity	5.7%	36.5%
International equity	5.7%	16.5%
Fixed income	2.0%	22.6%
Alternative investments	7.8%	19.6%
Cash and equivalents	0.0%	4.8%

Discount Rate

The discount used to measure the total pension liability was 7.2 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates determined by the Board of Pension Trustees, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability, calculated using the discount rate of 7.2 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.2 percent) or one percentage point higher (8.2 percent) than the current rate.

	<u>1% Decrease 6.2%</u>	<u>Current Rate Discount Rate 7.2%</u>	<u>1% Increase 8.2%</u>
School's proportionate share of the net pension liability	\$ 1,053,645	\$ 466,028	\$ (221,996)

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE J PENSION PLAN (cont'd)

Pension Plan Fiduciary Net Position

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

NOTE K 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. Refer to Notes F and H for details.

Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

NOTE L RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in the past year.

NOTE M EXCESS EXPENDITURES OVER APPROPRIATIONS

The following general fund functions incurred expenditures in excess of budget appropriations in the following amounts for the year ended June 30, 2016:

Land/building/facilities	\$	1,390
Food service	\$	118,159

The excess of expenditures was financed by other expenditure category appropriations being under budget.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE N SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

**ACADEMY OF DOVER CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges to school districts	\$ 455,935	\$ 444,700	\$ 444,700	\$ -
State aid	2,655,365	2,602,904	2,572,575	(30,329)
Federal aid	570,653	624,466	580,685	(43,781)
Earnings on cash and investments	-	-	2,842	2,842
School lunch services	-	-	53	53
Miscellaneous	-	-	12,719	12,719
TOTAL REVENUES	<u>3,681,953</u>	<u>3,672,070</u>	<u>3,613,574</u>	<u>(58,496)</u>
EXPENDITURES				
Current:				
Salaries	1,381,643	1,347,130	1,332,164	14,966
Employment costs	767,653	808,957	737,428	71,529
Travel	550	-	-	-
Contractual services	252,423	331,404	255,963	75,441
Communication	11,000	8,500	4,591	3,909
Public utility services	55,000	55,000	43,993	11,007
Insurance	32,000	32,000	29,287	2,713
Transportation - buses	210,000	210,000	210,000	-
Land/building/facilities	543,776	542,776	544,166	(1,390)
Repairs and maintenance	9,000	43,000	14,908	28,092
Food service	-	-	118,159	(118,159)
Supplies and materials	246,624	213,368	142,799	70,569
Contingency reserve	61,528	60,254	-	60,254
Capital outlays:				
Equipment	39,000	42,729	41,649	1,080
Debt service:				
Principal	150,000	150,000	150,000	-
TOTAL EXPENDITURES	<u>3,760,197</u>	<u>3,845,118</u>	<u>3,625,107</u>	<u>220,011</u>
NET CHANGE IN FUND BALANCE	<u>\$ (78,244)</u>	<u>\$ (173,048)</u>	(11,533)	<u>\$ 161,515</u>
FUND BALANCE, BEGINNING OF YEAR			<u>218,097</u>	
FUND BALANCE, END OF YEAR			<u>\$ 206,564</u>	

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

**ACADEMY OF DOVER CHARTER SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>MEASUREMENT DATE</u>	
	<u>JUNE 30, 2015</u>	<u>JUNE 30, 2014</u>
School's proportion of the net pension liability	0.0701%	0.0705%
School's proportion of the net pension liability - dollar value	\$ 466,028	\$ 259,508
School's covered employee payroll	\$ 1,306,444	\$ 1,296,621
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	35.67%	20.01%
Plan fiduciary net position as a percentage of the total pension liability	92.67%	95.80%

Note: The above information is presented as of the Plan's measurement date.

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

**ACADEMY OF DOVER CHARTER SCHOOL
SCHEDULE OF SCHOOL CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 121,924	\$ 124,896
Contributions in relation to the contractually required contribution	<u>121,924</u>	<u>124,896</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 1,272,693	\$ 1,306,444
Contributions as a percentage of covered-employee payroll	9.58%	9.56%

SUPPLEMENTARY INFORMATION

**ACADEMY OF DOVER CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2016**

	State Allocation	Local Funding	Federal Funding	Totals
ASSETS				
Cash and pooled cash	\$ 20,086	\$ 453,144	-	\$ 473,230
Due from other governments	-	-	42,264	42,264
Due from other funding sources	-	12,298	-	12,298
TOTAL ASSETS	\$ 20,086	\$ 465,442	\$ 42,264	\$ 527,792
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 22,715	\$ 1,911	-	\$ 24,626
Accrued salaries and related costs	243,677	10,661	29,966	284,304
Due to other funding sources	-	-	12,298	12,298
TOTAL LIABILITIES	266,392	12,572	42,264	321,228
FUND BALANCES (DEFICIT):				
Unassigned (Deficit)	(246,306)	452,870	-	206,564
TOTAL LIABILITIES AND FUND BALANCES	\$ 20,086	\$ 465,442	\$ 42,264	\$ 527,792

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

	State Allocation	Local Funding	Federal Funding	Totals
REVENUES				
Charges to school districts	\$ -	\$ 444,700	-	\$ 444,700
State aid	2,572,575	-	-	2,572,575
Federal aid	-	-	325,335	325,335
Earnings on cash and investments	-	2,842	-	2,842
School lunch services - grants	-	-	255,350	255,350
School lunch services - charges for services	-	53	-	53
Miscellaneous	-	12,719	-	12,719
TOTAL REVENUES	<u>2,572,575</u>	<u>460,314</u>	<u>580,685</u>	<u>3,613,574</u>
EXPENDITURES				
Current:				
Instructional services	2,028,773	26,527	325,335	2,380,635
Operation and maintenance of facilities	451,926	134,476	-	586,402
Transportation	126,000	84,000	-	210,000
Food services	-	-	255,350	255,350
Capital outlays:				
Equipment	-	42,720	-	42,720
Debt service:				
Principal	-	150,000	-	150,000
TOTAL EXPENDITURES	<u>2,606,699</u>	<u>437,723</u>	<u>580,685</u>	<u>3,625,107</u>
NET CHANGE IN FUND BALANCES	(34,124)	22,591	-	(11,533)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(212,182)</u>	<u>430,279</u>	<u>-</u>	<u>218,097</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (246,306)</u>	<u>\$ 452,870</u>	<u>\$ -</u>	<u>\$ 206,564</u>

**ACADEMY OF DOVER CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

EXPENDITURES

Current:

Salaries	\$ 1,332,164
Employment costs	737,428
Contractual services	255,963
Communication	4,591
Public utility services	43,993
Insurance	29,287
Transportation - buses	210,000
Land/building/facilities	544,166
Repairs and maintenance	14,908
Food service	118,159
Supplies and materials	142,799
Equipment	41,649
Debt service - principal	<u>150,000</u>

TOTAL EXPENDITURES

\$ 3,625,107

INDEPENDENT AUDITOR'S
REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

September 22, 2016

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

Internal Control Over Financial Reporting

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

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

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

Board of Directors
Academy of Dover Charter School

Compliance and Other Matters

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

Purpose of this Report

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

Barbacane, Thornton & Company LLP

BARBACANE, THORNTON & COMPANY LLP

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

ACADEMY OF DOVER CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

2014-001

EXEPNDITURE CONTROLS

Condition

During our prior year audits, we selected a sample of 50 cash disbursements and tested controls over cash disbursements. Our test yielded 13 instances where controls were not operating effectively. The errors included 12 instances where the invoice or other supporting documentation for the expenditure did not exist in support of the voucher that was processed, and one instance where the voucher along with the invoice or supporting documentation was missing.

Criteria

The School has established policies and procedures for the purchase of goods and services and for the payment of such. Purchases less than \$2,500 require an approved purchase memo. Purchases greater than \$2,500 but less than \$5,000 require an approved purchase order by the chief accounting officer, and purchases greater than \$5,000 require Board approval. In order to process payment, the approved purchase order or purchase memo is to be accompanied by the invoice and other documentation as required.

Effect

The School had a misappropriation of funds.

Cause

Management override of controls.

Recommendation

All invoices received should be viewed by an appointed member of management to ensure that the invoice is properly coded to a reasonable account, the invoice was properly calculated, the good or service being paid was actually received, and the School has adhered to its purchase policy by having an approved purchase order. Management should consistently document this review of all invoices to limit the possibility that an unapproved invoice will be paid by the School and to also ensure that invoices are being recorded to the correct accounts.

Status

During our current year audit, we selected a sample of 40 cash disbursements and tested controls over cash disbursements. Our test yielded zero exceptions and indicated that steps have been taken to improve controls surrounding expenditures. We noted that the use of credit cards was discontinued during the previous year. Therefore, this finding is no longer applicable.

ACADEMY OF DOVER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (cont'd)

STATUS OF PRIOR YEAR FINDINGS

2014-002

MANAGEMENT OVERRIDE OF CONTROLS

Condition

During our prior year audits, our audit procedures led us to conduct additional testing of School expenditures, specifically expenditures made via credit card, which raised question as to the appropriateness of certain expenditures. We addressed these items with the Board of Directors, who in turn contacted the State of Delaware's Office of Auditor of Accounts ("AOA"). AOA conducted an investigation of the School's expenditures, and the information contained in their report corroborated the results of our testing, reported material weaknesses, and also contained other items not related to the credit card purchases, where additional funds were potentially misused.

Criteria

The School has established policies and procedures for the purchase of goods and services and for the payment of such. Purchases less than \$2,500 require an approved purchase memo. Purchases greater than \$2,500 but less than \$5,000 require an approved purchase order by the chief accounting officer, and purchases greater than \$5,000 require Board approval. In order to process payment, the approved purchase order or purchase memo is to be accompanied by the invoice and other documentation as required.

Effect

The School had a misappropriation of funds.

Cause

The Board was not adequately trained or involved in the day-to-day operation of the School.

Recommendation

In general terms, the School should utilize the Committee of Sponsoring Organizations' ("COSO") internal control framework as a guide to developing strong internal controls that support good fiscal operations and that aid in the prevention and detection of fraud, waste, and abuse. We recommended that the Board of Directors revisit their policies and procedures and take steps to ensure that the proper controls are in place, followed, and well documented.

Status

During our current year audit, we noted that the use of a School credit card has been discontinued. Therefore, this finding is no longer applicable.

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

STATUS OF PRIOR YEAR FINDINGS

2014-003

BUDGET

Condition

During our prior year audits, we noted several categories in the budgetary comparison schedule where actual expenditures exceeded the budgeted amount. These variances make it difficult to effectively manage the results of operations.

Criteria

The fundamental purpose of budgetary control is to plan beforehand for the operations of the School and then maintain the operations according to the plan.

Cause

It has been the District's informal policy to not budget for federal expenditures and the related grant revenues.

Effect

Budgetary comparisons to actual results stimulate the early identification of operational problems and help ensure that timely decisions are made resolving the problems, resulting in better coordination and control of business efforts and in more effective use of the School's resources.

Recommendation

We recommended that the School more accurately evaluate operational performance in preparing the annual operating budget. Review of the budget to actual results variations will enable management to more actively run the School by recognizing unusual trends that may indicate fraud, unwise use of resources, operational inefficiencies, poor decision making, missed business opportunities, and other threats.

Status

During our current year audit, we noted that there are now only two categories in the budgetary comparison schedule where actual expenditures exceeded the budgeted amount. Therefore, this finding is no longer applicable.

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

STATUS OF PRIOR YEAR FINDINGS

2015-001

BENEFIT PAYMENT

Condition

During our prior year audit, we noted that upon resignation, the prior Principal was improperly paid for nine vacation days that had been carried over from the prior year. It is stated in the Principal's contract at Article IV, Section E, "There shall be no carryover of vacation time, and the Principal shall use all annual vacation time prior to the start of a new school year."

Criteria

The School is legally obligated to follow all employment contracts.

Cause

Unfamiliarity with the language in the former Principal's contract in regard to unused vacation time.

Effect

The School paid benefits to an employee for which the employee was not entitled to receive.

Recommendation

We recommended that the School, upon resignation or termination of any employee, review the employee's employment contract before any benefit payments are made. This will ensure the proper payment, if necessary, of any payments owed to the former employee.

Status

During our current year audit, we noted that there were no benefit payments made to terminated employees. Therefore, this finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.