

**FREIRE CHARTER SCHOOL WILMINGTON, INC.  
(A Component Unit of the State of Delaware)**

**ANNUAL FINANCIAL REPORT**

*Year Ended June 30, 2016*



*Expertise Beyond The Numbers®*

*Certified Public Accountants and Business Consultants*

# **INTRODUCTORY SECTION**

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**(A Component Unit of the State of Delaware)**  
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YEAR ENDED JUNE 30, 2016

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**FREIRE CHARTER SCHOOL WILMINGTON, INC.**

**(A Component Unit of the State of Delaware)**

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## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

To the Board of Directors  
Freire Charter School Wilmington, Inc.  
Wilmington, Delaware

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and the major fund of the Freire Charter School Wilmington, Inc. (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 Freire Charter School Wilmington, Inc.'s basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The Freire Charter School Wilmington, Inc.'s 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.

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

To the Board of Directors  
Freire Charter School Wilmington, Inc.  
Wilmington, Delaware

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 Freire Charter School Wilmington, Inc. as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 10, budgetary comparison information on pages 31 and 32, and schedule of schools proportionate share of net pension liability on page 33, and schedule of contributions on page 34 to 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 evidence sufficient to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2016, on our consideration of the Freire Charter School Wilmington, Inc.'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 Freire Charter School Wilmington, Inc.'s internal control over financial reporting and compliance.

*Maillie LLP*

West Chester, Pennsylvania  
September 29, 2016

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2016

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The Freire Charter School Wilmington, Inc. (the "School") is pleased to present to readers of the financial statements of the School this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016, its 1st year of operation as contained in the report on its financial statements prepared by the School's outside auditors.

**FINANCIAL HIGHLIGHTS**

**Governmental Activities**

- The net position of the School at the close of the fiscal year is \$379,401.

**Fund Level**

As of the close of the current fiscal year, the School's Governmental Fund (the General Fund) reported an ending fund balance of \$653,387.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This overview is an introduction to the School's basic financial statements. The School's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. The audit report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Position (page 11) presents information on all of the School's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators as to whether the financial position of the School is improving or deteriorating.

The Statement of Activities (page 12) presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**Fund Financial Statements**

The fund financial statements begin on page 13 and provide detailed information about the General Fund. A "fund" is a fiscal and accounting entity with a self-balancing set of accounts that the School uses to keep track of specific sources of funding and spending for a particular purpose. The General Fund falls into the governmental category.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2016

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- **Governmental Funds** - The School's basic services are reported in a Governmental Fund, which focuses on how cash flows into and out of the fund and the balances left at year-end that are available for future spending. The Governmental Fund financial statements provide a detailed, short-term view of the School's operations and the services it provides. Governmental Fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the long-term focus of the government-wide statements, reconciliations are provided to explain the differences between the Governmental Fund Balance Sheet and the Statement of Net Position (page 14) and between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities (page 16). These funds are reported using the modified accrual basis of accounting, which primarily measures cash and other financial assets available to satisfy current liabilities.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 17 of this report.

**Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the School's actual revenues and expenses compared to its budget, as well as the Schedule of the School's proportionate share of the net pension liability. The required supplementary information can be found on pages 31 through 34.

**FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

**Net Position**

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 to help answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by private sector corporations. All of the current year revenue and expenses are taken into consideration regardless of when cash is received or paid.

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 stability and facility conditions to arrive at a conclusion regarding the overall health of the School.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2016

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***Condensed Statements of Net Position***  
***June 30, 2016***

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current and other assets	\$ 860,027
Capital assets	<u>1,101,215</u>
TOTAL ASSETS	<u>1,961,242</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
	<u>70,434</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>2,031,676</u>
<b>LIABILITIES</b>	
Current liabilities	240,132
Noncurrent liabilities	<u>1,412,143</u>
TOTAL LIABILITIES	<u>1,652,275</u>
<b>NET POSITION</b>	
Net investment in capital assets	214,393
Restricted	536,956
Unrestricted	<u>(371,948)</u>
TOTAL NET POSITION	<u>\$ 379,401</u>

The net investment in capital assets component of the School's net position, \$214,393, is reflected as invested in capital assets (e.g., furniture, equipment and others), less any debt outstanding that was needed to acquire or construct the assets. There was \$886,822 in outstanding debt relating to the acquisition of capital assets at June 30, 2016.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2016

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***Condensed Statements of Changes in Net Position***  
***Years Ended June 30, 2016***

	<u>Governmental Activities</u>
REVENUES	
Charges to school districts	\$ 800,306
State aid not restricted to specific purposes	1,386,934
Donations	368,520
Operating grants and contributions	453,937
Charges for services	10,766
Other local services	<u>2,370</u>
 TOTAL REVENUES	 <u>3,022,833</u>
EXPENSES	
Instructional services	1,787,779
Support services	
Operation and maintenance of facilities	537,407
Transportation	192,268
School food services	89,562
Interest expense	<u>40,648</u>
 TOTAL EXPENSES	 <u>2,647,664</u>
 CHANGE IN NET POSITION	 375,169
 NET POSITION AT BEGINNING OF YEAR	 <u>4,232</u>
 NET POSITION AT END OF YEAR	 <u>\$ 379,401</u>

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUND**

**Governmental Fund**

***General Fund - Comparison to Prior Year and to Budget*** - The General Fund is the School's operating fund. At the end of fiscal year 2016, the fund balance was \$653,387.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2016

The following schedule presents General Fund revenues and expenditures for 2016 compared to budget.

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts Cash Basis	Final Budget Positive (Negative)
<b>REVENUES</b>				
State support	\$ 1,325,867	\$ 1,346,796	\$ 1,386,934	\$ 40,138
Federal support	330,615	460,806	449,524	(11,282)
Charges to school districts	781,422	805,564	800,306	(5,258)
Food service	127,904	22,874	11,189	(11,685)
Fundraising/other	400,000	350,500	363,390	12,890
Loan proceeds	-	300,000	560,000	260,000
<b>TOTAL REVENUES</b>	<b>2,965,808</b>	<b>3,286,540</b>	<b>3,571,343</b>	<b>284,803</b>
<b>EXPENDITURES</b>				
Salaries	822,000	820,016	728,149	91,867
Employment costs	421,482	336,545	292,454	44,091
Direct student costs	419,204	526,295	457,684	68,611
Occupancy costs	623,948	550,047	543,026	7,021
Office expenses	87,356	43,153	36,544	6,609
General expenses	374,665	334,891	360,007	(25,116)
Capital outlays	169,546	549,032	272,357	276,675
Debt service	51,229	58,076	107,591	(49,515)
Contingency reserve	42,146	43,047	-	43,047
<b>TOTAL EXPENDITURES</b>	<b>3,011,576</b>	<b>3,261,102</b>	<b>2,797,812</b>	<b>463,290</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (45,768)</b>	<b>\$ 25,438</b>	<b>\$ 773,531</b>	<b>\$ 748,093</b>

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The final budget contained \$3,286,540 of revenues and \$3,261,102 of expenditures. The actual results were revenues of \$284,803 over budget and expenditures of \$463,290 under budget.

- State support was greater than the budget by \$40,138 based on staff education and experience levels.
- Loan proceeds were greater than the budget by \$260,000 due to an additional loan taken out during the year to cover construction costs.
- Salaries and employment cost were budgeted on the modified accrual basis and include budgeted summer salaries. The cash basis does not include our summer salary accrual.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2016

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- Direct student costs were under budget by \$68,611. This is primarily due to certain invoices not being billed or paid until July 2016. The School also utilized less instructional supplies than budgeted. Finally, food service expenses were reduced in the final months of the year due to less demand.
- Capital outlays were under budget by \$276,675 due to timing of construction costs. Construction was completed in August 2016 and no further construction projects are planned.
- A contingency reserve of \$43,047 was budgeted but none was spent during the fiscal year ended June 30, 2016. The School is required to budget this contingency, but does not charge any expenses against it.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2016, the School had invested \$1,101,215, net of accumulated depreciation, in its capital assets.

	<u>Governmental Activities</u>
Furniture and equipment	\$ 309,428
Leasehold improvements	831,219
Construction in progress	33,191
Accumulated depreciation	<u>(72,623)</u>
	<u>\$ 1,101,215</u>

Major capital asset events during the 2016 fiscal year included the following:

- Furniture, equipment and computers in the amount of \$207,947 were acquired.
- Construction with costs of \$831,219 was finished and placed into service.

Additional information regarding the School's capital assets is contained in Note C to the financial statements.

**Long-Term Debt**

At the end of the current fiscal year, the School had total debt outstanding of \$1,445,635. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the School's finances to its various stakeholders and other users of such data. Requests for additional copies of this report, questions concerning any of the information in this report and requests for additional financial information should be addressed to William Ray, Controller, Build the Future Education Collaborative, 1617 JFK Blvd, Suite 1260, Philadelphia, PA 19103.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
STATEMENT OF NET POSITION  
JUNE 30, 2016

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$
Unrestricted	222,822
Prepaid expenses	13,682
Accounts receivable	67,872
Capital assets	
Nondepreciable assets	33,191
Depreciable assets	1,140,647
Accumulated depreciation	<u>(72,623)</u>
TOTAL CAPITAL ASSETS	1,101,215
Security deposit	18,695
Escrow deposit	<u>536,956</u>
 TOTAL ASSETS	 1,961,242
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred contributions and changes in proportion related to pension activities	<u>70,434</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 \$ <u><u>2,031,676</u></u>
<b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 47,621
Accrued salaries and related costs	153,025
Deferred revenue	5,994
Long-term liabilities	
Portion due within one year	
Loan payable	33,492
Portion due after one year	
Note payable	97,349
Loan payable	<u>1,314,794</u>
TOTAL LIABILITIES	<u>1,652,275</u>
<b>NET POSITION</b>	
Net investment in capital assets	214,393
Restricted for capital improvements	536,956
Unrestricted	<u>(371,948)</u>
TOTAL NET POSITION	<u>379,401</u>
 TOTAL LIABILITIES AND NET POSITION	 \$ <u><u>2,031,676</u></u>

*See accompanying notes to the basic financial statements.*

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 1,787,779	\$ -	\$ 404,126	\$ -	\$ (1,383,653)
Supporting services					
Transportation	192,268	-	-	-	(192,268)
Operation and maintenance of facilities	537,407	-	-	-	(537,407)
School food services	89,562	10,766	49,811	-	(28,985)
Interest expense	40,648	-	-	-	(40,648)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 2,647,664</b>	<b>\$ 10,766</b>	<b>\$ 453,937</b>	<b>\$ -</b>	<b>(2,182,961)</b>
<b>GENERAL REVENUES</b>					
					800,306
					1,386,934
					368,520
					2,370
					<u>2,558,130</u>
					375,169
					<u>4,232</u>
					<u>\$ 379,401</u>

See accompanying notes to the basic financial statements.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
BALANCE SHEET  
GOVERNMENTAL FUND  
JUNE 30, 2016

	<u>General Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	
Unrestricted	\$ 222,822
Prepaid expenses	13,682
Accounts receivable	67,872
Security deposit	18,695
Escrow deposit	<u>536,956</u>
TOTAL ASSETS	<u>\$ 860,027</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 47,621
Accrued salaries and related costs	153,025
Unearned revenue	<u>5,994</u>
TOTAL LIABILITIES	<u>206,640</u>
FUND DEFICIT	
Restricted for capital improvements	536,956
Nonspendable	13,682
Unassigned	<u>102,749</u>
TOTAL FUND BALANCE	<u>653,387</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 860,027</u>

*See accompanying notes to the basic financial statements.*

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**

**(A Component Unit of the State of Delaware)**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE

TO NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2016

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TOTAL GOVERNMENTAL FUND BALANCE	\$ <u>653,387</u>
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Fund. These assets consist of:</p>	
Nondepreciable	33,191
Depreciable assets	1,140,647
Accumulated depreciation	<u>(72,623)</u>
	<u>1,101,215</u>
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the fund.</p>	
Deferred contributions and changes in proportion related to pension activities	<u>70,434</u>
<p>Some liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund. Those liabilities consist of:</p>	
Current portion of debt payable	(33,492)
Long-term portion of debt payable	<u>(1,412,143)</u>
	<u>(1,445,635)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u><u>379,401</u></u>

*See accompanying notes to the basic financial statements.*

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>
REVENUES	
State support	\$ 1,386,934
Federal support	426,157
Charges to school districts	800,306
Food service	10,766
Contributions	396,300
Other local sources	<u>2,370</u>
TOTAL REVENUES	<u>3,022,833</u>
EXPENDITURES	
Current	
Instructional services	1,823,688
Supporting services	
Transportation	192,268
Operation and maintenance of facilities	499,309
School food services	89,562
Debt service	107,591
Capital outlays	<u>272,357</u>
TOTAL EXPENDITURES	<u>2,984,775</u>
EXCESS OF REVENUES OVER EXPENDITURES	38,058
OTHER FINANCING SOURCES	
Proceeds of debt issuance	<u>560,000</u>
NET CHANGE IN FUND BALANCE	598,058
FUND BALANCE AT BEGINNING OF YEAR	<u>55,329</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 653,387</u></u>

*See accompanying notes to the basic financial statements.*

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**

**(A Component Unit of the State of Delaware)**

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2016

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NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND	\$ 598,058
<p>Capital outlays are reported in the Governmental Fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period.</p>	
Capital outlays	272,357
Depreciation	(72,623)
<p>The Government Fund reports pension contributions as expenditures. However, in the statement of activities, these contributions reduce the net pension liability.</p>	
	70,434
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Fund.</p>	
Proceeds from debt	(560,000)
Repayment of debt	<u>66,943</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 375,169</u>

*See accompanying notes to the basic financial statements.*

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of the Charter School**

The Freire Charter School Wilmington, Inc. (the "School") was formed in 2013 as a nonprofit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The School's first year of operations began July 1, 2015. The School was established to provide college-preparatory learning experience with a focus on individual freedom, critical thinking, and problem solving in an environment that emphasizes the values of community, teamwork, and nonviolence.

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 and do not receive state or local school district funding for capital facilities. To encourage innovation, charter schools operate free from some state laws and regulations.

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government 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 is the primary 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 GASB established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the School's financial reporting entity are financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financing relationships. Based upon the above criteria, the School has no component units for which it is considered to be financially accountable.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government-wide financial statements report net position in three separate components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net position is reported as restricted for specific programs when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from special revenue and capital funds. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted for specific programs."

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

Separate financial statements are provided for the Governmental Fund.

**Measurement Focus, Basis of Accounting and Financial Statement Preparation**

The government-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 school districts 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, materials, 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.

The 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 year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Charges to the School 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.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The School reports the General Fund (a Governmental Fund type), which is the School's operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

**Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand and demand deposits.

**Accounts Receivable**

Accounts receivable are stated at their net realizable values. Accounts receivable do not bear interest. There was no allowance for uncollectable receivables at June 30, 2016.

**Capital Assets**

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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are expensed.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is 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:

	<u>Years</u>
Leasehold improvements	20
Furniture and equipment	10
Computer equipment	5

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Compensated Absences**

Vacation and sick pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. Availability for these amounts is reported in the Governmental Fund only when the liability matures, for example as a result of employee resignations and retirement.

**Vacation** - Vacation cannot be accumulated from year to year. Any unused vacation days as of June 30 of each year lapse and are unpaid.

**Sick Leave** - Sick leave allowances cannot be accumulated from year to year.

There were no compensated absences as of June 30, 2016.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School reports deferred outflow related to pension activity, reported in the government-wide statement of net position. The deferred outflow related to pension activity is the result of changes in the School's proportionate share of the total plan from year to year, the difference between actual employer contributions and the School's proportionate share of total contributions, and actual contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School reported deferred inflows related to pension activity, which are reported in the government-wide statement of net position. The deferred inflow related to pension activity is the result of differences between projected and actual investment earnings. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Fund Balance**

In the fund financial statements, the Governmental Fund present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the Governmental Fund can be spent.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The classifications used in the Governmental Fund financial statements are as follows:

- ***Nonspendable*** - This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) are legally or contractually required to be maintained intact. The School has classified prepaid items as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- ***Restricted*** - This classification includes amounts for which constraints have been placed on the use of the resources either (1) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.
- ***Committed*** - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The Board of Directors is the highest level of decision-making authority for the School. Commitments cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (formal vote of the Board of Directors) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2016.
- ***Assigned*** - This classification includes amounts that are constrained by the School's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the School management through the budgetary process. The School did not have any assigned fund balance as of June 30, 2016.
- ***Unassigned*** - This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other Governmental Fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Unearned Revenue**

Unearned revenue includes federal grant funds received that have not been spent as of the financial statement date.

**Income Tax**

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the School's financial statements. In addition, 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)(2).

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE B - CASH AND CASH EQUIVALENTS**

At June 30, 2016, the School had cash and cash equivalents of \$222,822. Substantially all cash and cash equivalent are part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and any investment decisions are made by the State Treasurer's Office.

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 the time of purchase of one year or less are stated at cost or amortized cost. Because the State of Delaware investment pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is deemed to be a cash equivalent.

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**NOTE C - CAPITAL ASSETS**

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

	Beginning Balance <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2016</u>
<b>CAPITAL ASSETS NOT BEING DEPRECIATED</b>				
Construction in progress	\$ 800,000	\$ 64,410	\$ (831,219)	\$ 33,191
<b>CAPITAL ASSETS BEING DEPRECIATED</b>				
Leasehold improvements	-	831,219	-	831,219
Furniture and equipment	101,481	57,951	-	159,432
Computers	-	149,996	-	149,996
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>101,481</u>	<u>1,039,166</u>	<u>-</u>	<u>1,140,647</u>
Accumulated depreciation				
Leasehold improvements	-	(38,098)	-	(38,098)
Furniture and equipment	-	(13,915)	-	(13,915)
Computers	-	(20,610)	-	(20,610)
TOTAL ACCUMULATED DEPRECIATION	<u>-</u>	<u>(72,623)</u>	<u>-</u>	<u>(72,623)</u>
CAPITAL ASSETS BEING DEPRECIATED, net	<u>101,481</u>	<u>966,543</u>	<u>-</u>	<u>1,068,024</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net</b>				
	<u>\$ 901,481</u>	<u>\$ 1,030,953</u>	<u>\$ (831,219)</u>	<u>\$ 1,101,215</u>

Depreciation expense was \$72,623 for the year ended June 30, 2016, and is allocated \$38,098 to operations and \$34,525 to instructional services in the accompanying statement of activities.

**NOTE D - LINES OF CREDIT**

The School has a line of credit of \$800,000 with a bank expiring May 31, 2018. Interest is payable annually on April 30, 2016 and on each subsequent April 30 at 5%, along with any unpaid principal. There was no balance outstanding on the line of credit at June 30, 2016.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
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**NOTE E - LONG-TERM DEBT**

Long-term debt obligations as of June 30, 2016, are as follows:

Term loan with a bank, interest of 5.0% per annum, paid in monthly installments of \$5,279.65, with the remaining balance due August 2021.	\$ 778,139
Term loan with a bank, no payments for the first eight months ended August 2016, after that monthly payments of \$2,046.83 including principal and interest at 5.0% based on a 20-year amortization schedule with the remaining balance due August 2021.	310,147
Term loan with a bank, interest only at 5.0% per annum through March 2017. Starting April 2017, annual principal payments in the amount equal to 100% of charitable donations received during the preceding 12 month period in excess of \$80,000 for the first loan year and \$50,000 for each loan year thereafter, with the remaining balance due April 2021.	260,000
Note payable to the Freire Foundation, full amount due when the School reaches full enrollment in the year ending June 30, 2019.	<u>97,349</u>
	1,445,635
Current portion	<u>(33,492)</u>
	<u>\$ 1,412,143</u>

Changes in long-term debt for the year ended June 30, 2016, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
LOANS PAYABLE					
Barclays' - Phase 1	\$ 800,000	\$ -	\$ (21,861)	\$ 778,139	\$ 25,017
Barclays' - Phase 2	-	310,147	-	310,147	8,475
Barclays' - Additional Phase 2	-	260,000	-	260,000	-
TOTAL LOANS PAYABLE	<u>800,000</u>	<u>570,147</u>	<u>(21,861)</u>	<u>1,348,286</u>	<u>33,492</u>
NOTE PAYABLE	<u>142,431</u>	<u>-</u>	<u>(45,082)</u>	<u>97,349</u>	<u>-</u>
Long-term debt	<u>\$ 942,431</u>	<u>\$ 570,147</u>	<u>\$ (66,943)</u>	<u>\$ 1,445,635</u>	<u>\$ 33,492</u>

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE E - LONG-TERM DEBT (Continued)**

Annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 33,492	\$ 98,414	\$ 131,906
2018	35,996	99,076	135,072
2019	135,186	98,982	234,168
2020	39,773	96,716	136,489
2021	301,808	305,555	607,363
Thereafter	<u>899,380</u>	<u>1,214,597</u>	<u>2,113,977</u>
	<u>\$ 1,445,635</u>	<u>\$ 1,913,340</u>	<u>\$ 3,358,975</u>

**NOTE F - PENSION PLAN**

**Summary of Significant Accounting Policies**

**Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Delaware Public Employees' Retirement System ("DPERS") and additions to/deductions from DPERS's fiduciary net position have been determined on the same basis as they are reported by DPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information About the Pension Plan**

**Plan Description** - DPERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to virtually all full-time or regular part-time employees of the State of Delaware, including employees of other affiliated entities. There are two tiers within the plan: 1) Employees hired prior to January 1, 2012 (Pre-2012), and 2) Employees hired on or after January 1, 2012 (Post-2011). DPERS issues a publicly available financial report that can be obtained from the pension office at McArdle Building, Suite 1; 860 Silver Lake Blvd., Dover, DE 19904.

**Benefits Provided** - DPERS provides retirement, disability and death benefits. Pre-2012 members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least five years of credited service; (b) age 60 with 15 years of credited service; or (c) 30 or more years of service regardless of age. Post-2011 members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least ten years of credited service; (b) age 60 with 20 years of credited service; or (c) 30 or more years of service regardless of age.

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**NOTE F - PENSION PLAN (Continued)**

Pre-2012 participants are eligible for disability benefits after five years of credited service. In lieu of disability pension benefits, over 90% of the members in this Plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Post-2011 participants are not offered disability pension benefits and are in the Disability Insurance Program.

Death benefits are payable upon the death of an active member who has reached age 62 with at least five years of credited service. Such benefits are paid at 75% of the benefit the employee would have received at age 62. If an employee is currently receiving a pension, the eligible survivor receives 50% of the pension benefit (or 75% with 3% reduction of benefit). Burial benefits of \$7,000 per member are also provided.

***Contributions***

**Members Contributions**

- Pre-2012 members contribute at 3% of earnings in excess of \$6,000.
- Post-2011 members contribute at 5% of earnings in excess of \$6,000.

**Employer Contributions**

Employer contributions are determined by the Board of Pension Trustees. Employer contributions were 9.56% of earnings for the Fiscal Year 2015. Contributions to the plan from the School were \$70,434 for the year ended June 30, 2016.

***Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2016, the School reported a liability of \$0 for its proportionate share of the net pension liability. The reported liability of \$0 is the result of the School opening effective as of July 1, 2015, which is after the DPERS measurement date. 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 System's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the total one-year reported contributions. At June 30, 2015, the School's proportion was 0%, as the School did not begin operations until July 1, 2015.

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**NOTE F - PENSION PLAN (Continued)**

For the year ended June 30, 2016, the School recognized pension expense of \$0. 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>
Difference between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings	-	-
Changes in proportions	-	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	<u>70,434</u>	<u>-</u>
	<u>\$ 70,434</u>	<u>\$ -</u>

\$70,434 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

**Actuarial Assumptions** - The total pension liability as of June 30, 2015, was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

- **Investment Return** - 7.2%, includes inflation at 3.00%
- **Salary Increases** - 3.5% to 11.5%, includes inflation at 3.00%
- 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

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used in the June 30, 2014 valuation 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 experience deviates, the larger the impact on future financial statements.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE F - PENSION PLAN (Continued)**

The long-term expected rate of return on 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 plan 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 weighing 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 System's current and expected asset allocation is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	36.5%	5.7%
International equity	16.5%	5.7%
Fixed income	22.6%	2.0%
Alternative investments	19.6%	7.8%
Cash and equivalents	<u>4.8%</u>	0.0%
	<u><u>100.0%</u></u>	

**Discount Rate** - The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, 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 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20%) or one percentage point higher (8.20%) than the current rate:

	1% Decrease <u>6.20%</u>	Current Discount Rate <u>7.20%</u>	1% Increase <u>8.20%</u>
Charter School's proportionate share of the net pension liability	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>          -</u>

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**(A Component Unit of the State of Delaware)**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2016

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**NOTE F - PENSION PLAN (Continued)**

**Pension Plan Fiduciary Net Position** - Detailed information about DPERS's fiduciary net position is available in the DPERS Comprehensive Annual Financial Report which can be obtained from the pension office at McArdle Building, Suite 1; 860 Silver Lake Blvd.; Dover, DE, 19904.

**NOTE G - LEASING ARRANGEMENT**

The School entered into a lease for facilities beginning August 1, 2015, for a 16 year term ending August 31, 2031.

Future minimum rental payments under this lease is as follows:

<u>Year Ending June 30,</u>	
2017	\$ 450,114
2018	532,714
2019	539,797
2020	575,214
2021	575,214
Thereafter	<u>6,561,686</u>
	<u>\$ 9,234,740</u>

At June 30, 2016, rental expense was \$313,309.

The landlord has required the School to deposit \$560,000 into an account controlled by the landlord. These funds will be transferred to the School for payment of construction costs as they are incurred. Any unused funds remaining after construction will be returned to the School. At June 30, 2016, \$536,956 is shown as escrow deposit on the Statement of Net Assets.

**NOTE H - 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 year presented.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE I - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are various outstanding commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

**Grants**

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

**NOTE J - ECONOMIC DEPENDENCY**

School revenues that constitute in excess of 10% of total revenues are comprised of the following:

State support .....	46%
Charges to school districts.....	26%
Federal support .....	14%
Contributions .....	13%

## **REQUIRED SUPPLEMENTARY INFORMATION**

**FREIRE CHARTER SCHOOL WILMINGTON, INC.****(A Component Unit of the State of Delaware)**

## BUDGETARY COMPARISON SCHEDULE

## GENERAL FUND

YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts Cash Basis	Final Budget Positive (Negative)
REVENUES				
State support	\$ 1,325,867	\$ 1,346,796	\$ 1,386,934	\$ 40,138
Federal support	330,615	460,806	449,524	(11,282)
Charges to school districts	781,422	805,564	800,306	(5,258)
Food service	127,904	22,874	11,189	(11,685)
Fund-raising/other	400,000	350,500	363,390	12,890
Loan proceeds	-	300,000	560,000	260,000
TOTAL REVENUES	<u>2,965,808</u>	<u>3,286,540</u>	<u>3,571,343</u>	<u>284,803</u>
EXPENDITURES				
Salaries	822,000	820,016	728,149	91,867
Employment costs	421,482	336,545	292,454	44,091
Direct student costs	419,204	526,295	457,684	68,611
Occupancy costs	623,948	550,047	543,026	7,021
Office expenses	87,356	43,153	36,544	6,609
General expenses	374,665	334,891	360,007	(25,116)
Capital outlays	169,546	549,032	272,357	276,675
Debt service	51,229	58,076	107,591	(49,515)
Contingency reserve	42,146	43,047	-	43,047
TOTAL EXPENDITURES	<u>3,011,576</u>	<u>3,261,102</u>	<u>2,797,812</u>	<u>463,290</u>
NET CHANGE IN FUND BALANCE	\$ <u>(45,768)</u>	\$ <u>25,438</u>	\$ <u>773,531</u>	\$ <u>748,093</u>

*See accompanying note to the required supplementary information.*

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
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 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2016

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**NOTE A - BASIS OF ACCOUNTING**

The School's budget is prepared on the cash basis of accounting. The amount reported as "net change in fund balance" on the budgetary basis derives from the cash basis of accounting. Revenues are reported when received and expenditures are reported when paid. This amount differs from the "net change in fund balance" reported on the statement of revenues, expenditures and changes in fund balance, Governmental Fund on page 16.

That statement is prepared on 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.

The following reconciles the net change in fund balance per the budgetary basis to the net change in fund balance per the modified accrual basis.

CHANGE IN FUND BALANCE, BUDGETARY BASIS	\$ 773,531
Net increase in prepaids	13,682
Net increase in accounts receivable	42,678
Net increase in accounts payable	(38,348)
Net increase in accrued salaries and related costs	(153,025)
Net increase in deferred revenue	<u>(40,460)</u>
 CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS	 \$ <u><u>598,058</u></u>

**NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The School overspent budgetary appropriations in the following functions:

General expenses	\$ 25,116
Debt service	<u>49,515</u>
	 \$ <u><u>74,631</u></u>

These excess expenditures were funded by various functions that were under budget in the General Fund.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**SCHEDULE OF THE SCHOOL'S PROPORTIONATE**  
**SHARE OF THE NET PENSION LIABILITY**  
**LAST FISCAL YEAR**

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School's proportion of the net pension liability (asset)	<u><u>0.0000%</u></u>
School's proportionate share of the net pension liability (asset)	\$ <u><u>-</u></u>
School's covered-employee payroll	\$ <u><u>-</u></u>
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u><u>0.00%</u></u>
The plan's fiduciary net position as a percentage of the total pension liability	<u><u>92.67%</u></u>

Note: School operations began the year ended June 30, 2016.

**FREIRE CHARTER SCHOOL WILMINGTON, INC.**  
**SCHEDULE OF SCHOOL CONTRIBUTIONS**  
**LAST FISCAL YEAR**

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Contractually required contribution	\$ 70,434
Contributions in relation to the contractually required contribution	<u>70,434</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u><u>-</u></u>
Covered-employee payroll	\$ <u><u>736,754</u></u>
Contributions as a percentage of covered-employee payroll	<u><u>9.56%</u></u>

Note: School operations began the year ended June 30, 2016.

***Independent Auditors' 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***

To the Board of Directors  
Freire Charter School Wilmington, Inc.  
Wilmington, Delaware

We have audited, 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, the financial statements of the governmental activities and the major fund of the Freire Charter School Wilmington, Inc. as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Freire Charter School Wilmington, Inc.'s basic financial statements, and have issued our report thereon dated September 29, 2016.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Freire Charter School Wilmington, Inc.'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 Freire Charter School Wilmington, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

To the Board of Directors  
Freire Charter School Wilmington, Inc.  
Wilmington, Delaware

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Freire Charter School Wilmington, Inc.'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 result 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.

*Maille LLP*

West Chester, Pennsylvania  
September 29, 2016