

**DELAWARE DESIGN-LAB HIGH SCHOOL  
(A Component Unit of the State of Delaware)**

**ANNUAL FINANCIAL REPORT**

*Year Ended June 30, 2018*



*Certified Public Accountants and Business Consultants*

## **INTRODUCTORY SECTION**

**DELAWARE DESIGN-LAB HIGH SCHOOL  
(A Component Unit of the State of Delaware)**

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YEAR ENDED JUNE 30, 2018

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**DELAWARE DESIGN-LAB HIGH SCHOOL  
(A Component Unit of the State of Delaware)**

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## **FINANCIAL SECTION**

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

To the Board of Directors  
Delaware Design-Lab High School  
Newark, Delaware

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

We have audited the accompanying financial statements of the governmental activities and the major fund of Delaware Design-Lab High School (a component unit of the State of Delaware) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Delaware Design-Lab High School's basic financial statements as listed in the table of contents.

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

Delaware Design-Lab High School'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 audits. We conducted our audits 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.

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 Delaware Design-Lab High School as of June 30, 2018, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

To the Board of Directors  
Delaware Design-Lab High School  
Newark, Delaware

### **Emphasis of Matter**

As discussed in Note K to the financial statements, Delaware Design-Lab High School adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions. Our opinion is not modified with respect to this matter.

### **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 11, budgetary comparison information on pages 36 and 37, the Schedule of Proportionate Share of Net Pension Liability on page 38, the Schedule of Contributions on page 39, the Schedule of Proportionate Share of the Net OPEB liability on page 40 and the Schedule of Contributions on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Delaware Design-Lab High School's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018 on our consideration of Delaware Design-Lab High 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 Delaware Design-Lab High School's internal control over financial reporting and compliance.



West Chester, Pennsylvania  
September 28, 2018

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2018

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The discussion and analysis of the financial performance of Delaware Design-Lab High School (the "School") provides an overview of the School's financial activities for the fiscal year ended June 30, 2018.

**FINANCIAL HIGHLIGHTS**

The School's net position reflects a deficit balance of (\$3,040,287). Program revenues accounted for \$1,194,051 or 24.0% of total revenue, and general revenues accounted for \$3,708,357 or 76.0%.

The Governmental Fund reported a deficit balance in the amount of (\$169,402).

**USING THIS ANNUAL FINANCIAL REPORT**

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole and then proceed to provide a detailed look at specific financial activities.

**REPORTING DELAWARE DESIGN-LAB HIGH SCHOOL AS A WHOLE**

Fiscal year 2018 was the School's third year of operations. One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net position and changes in them. 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 educational related legislation, student enrollment growth, facility conditions and other issues in arriving at a conclusion regarding the overall health of the School.

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

Most of the School's activities are reported in the Governmental Fund, which focuses on how money flows into and out of that fund and the year-end balance available for spending in future periods. This fund is reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the School's general operations and the basic services it provides. Governmental Fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs and/or operations. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the Governmental Fund is reconciled in the basic financial statements.



**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2018

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**ENTITY-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the School, liabilities exceed assets by (\$3,158,368) at the close of the fiscal year of which \$624,703 was invested in net capital assets.

An analysis of net position of fiscal years 2018 and 2017 follows:

		<b>Statement of Net Position</b>		
		Governmental Activities		
		<u>2018</u>	<u>2017</u>	<u>Change</u>
<b>ASSETS</b>				
Current assets	\$	751,221	\$ 395,746	\$ 355,475
Noncurrent assets		<u>643,370</u>	<u>658,151</u>	<u>(14,781)</u>
TOTAL ASSETS		1,394,591	1,053,897	340,694
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
		<u>2,748,121</u>	<u>566,480</u>	<u>2,181,641</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
	\$	<u><u>4,142,712</u></u>	\$ <u><u>1,620,377</u></u>	\$ <u><u>2,522,335</u></u>
<b>LIABILITIES</b>				
Current liabilities	\$	939,290	\$ 1,178,498	\$ (239,208)
Noncurrent liabilities		<u>5,635,572</u>	<u>513,450</u>	<u>5,122,122</u>
TOTAL LIABILITIES		6,574,862	1,691,948	4,882,914
<b>DEFERRED INFLOWS OF RESOURCES</b>				
		<u>569,274</u>	<u>11,262</u>	<u>558,012</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>				
	\$	<u><u>7,144,136</u></u>	\$ <u><u>1,703,210</u></u>	\$ <u><u>5,440,926</u></u>
<b>NET POSITION</b>				
Net investment in capital assets	\$	624,703	\$ 639,484	\$ (14,781)
Restricted		383,419	-	383,419
Unrestricted		<u>(4,009,546)</u>	<u>(722,317)</u>	<u>(3,287,229)</u>
TOTAL NET POSITION	\$	<u><u>(3,001,424)</u></u>	\$ <u><u>(82,833)</u></u>	\$ <u><u>(2,918,591)</u></u>

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2018

	Statement of Activities		
	2018	Governmental Activities 2017	Change
<b>REVENUES</b>			
Charges to school districts	\$ 1,304,776	\$ 1,151,219	\$ 153,557
Payments from primary government	2,401,366	2,236,290	165,076
Earnings on cash and investments	2,215	4,439	(2,224)
Contributions	-	-	-
Program revenues			
Charges for services	215,686	59,571	156,115
Operating grants and contributions	978,365	460,538	517,827
TOTAL REVENUES	<u>4,902,408</u>	<u>3,912,057</u>	<u>990,351</u>
<b>EXPENSES</b>			
Instructional services	3,998,800	2,620,222	1,378,578
Support services			
Operation and maintenance of facilities	591,680	581,849	9,831
Transportation	289,602	283,440	6,162
School lunch services	114,585	119,240	(4,655)
TOTAL EXPENSES	<u>4,994,667</u>	<u>3,604,751</u>	<u>1,389,916</u>
CHANGE IN NET POSITION	(92,259)	307,306	(399,565)
<b>NET POSITION AT BEGINNING OF YEAR (Restated)</b>			
	<u>(2,948,028)</u>	<u>(390,139)</u>	<u>(2,557,889)</u>
NET POSITION AT END OF YEAR	<u>\$ (3,040,287)</u>	<u>\$ (82,833)</u>	<u>\$ (2,957,454)</u>

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2018

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**THE SCHOOL'S FUNDS**

The School's Governmental Fund reported a deficit balance of (\$287,483).

**Governmental Fund**

The tables that follow assist in illustrating the financial activities of the General Fund.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES</b>			
Charges to school districts	\$ 1,295,022	\$ 1,304,776	\$ 9,754
State aid	2,320,944	2,401,366	80,422
Federal aid	225,203	138,561	(86,642)
Earnings on cash and investments	-	2,215	2,215
Local fundraising	835,562	741,023	(94,539)
School programs	8,000	97,605	89,605
School lunch fees	<u>124,413</u>	<u>98,781</u>	<u>(25,632)</u>
<b>TOTAL REVENUES</b>	<b>\$ <u>4,809,144</u></b>	<b>\$ <u>4,784,327</u></b>	<b>\$ <u>(24,817)</u></b>

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>EXPENDITURES</b>			
Current			
Salaries and benefits	\$ 2,313,737	\$ 2,208,162	\$ 105,575
Travel	17,345	25,446	(8,101)
Contractual services	909,712	933,747	(24,035)
Communications	19,000	11,835	7,165
Public utilities	120,500	37,368	83,132
Insurance	34,000	47,272	(13,272)
Transportation	367,500	289,602	77,898
Facility costs	438,912	427,926	10,986
Repairs and maintenance	65,000	79,113	(14,113)
Supplies and materials	289,936	211,123	78,813
Capital outlays	<u>68,287</u>	<u>36,131</u>	<u>32,156</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ <u>4,643,929</u></b>	<b>\$ <u>4,307,725</u></b>	<b>\$ <u>336,204</u></b>

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2018

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The majority of School's total revenue (76%) comes from state sources and local school districts. State and local revenue is contingent upon the School's total enrollment population and the students' residential districts. The socioeconomic diversity and special needs of the School's population dictate entitlement to federal funding which accounts for (3%) of total revenue. Contributions, earnings on cash, program revenue, and students' lunch fees account for (21%) of total revenue. The reliance on this revenue is to support programs and facility expenditures that are not allotted for in federal, state and local funds.

**General Fund Budget Information**

The School's budget is prepared in accordance with the modified accrual basis of accounting.

Appropriate adjustments are made to the budget based on unanticipated revenue increases or shortfalls due to federal, state and Delaware Department of Education requirements and/or legislation, lack of contributions, etc. Some appropriations required changes in functional categories due to spending patterns.

***Revenues***

**State Aid** - The favorable variance of \$80,422 is attributed to increased state funding for staff employment costs.

**Federal Aid** - The unfavorable variance of \$86,642 is due to staffing changes during the year resulting in less spending than anticipated.

**Earnings on Cash and Investments** - The favorable variance of \$2,215 is due to interest earned on local funds that was not budgeted.

**Food Service** - The unfavorable variance of \$25,632 is due to lower cash received from students and parents.

**Contributions** - The unfavorable variance of \$94,539 is due to the timing of receipt of private grants.

**School Programs** - The favorable variance \$207,686 is due to forgiveness of a prior year liability.

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2018

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***Expenditures***

**Salaries and Employment Costs** - The favorable variance of \$105,575 is due to the timing of new hires starting later in the year than anticipated.

**Travel** - The unfavorable variance of \$8,101 is due to increased staff attending professional development that is covered in a private grant.

**Contractual Services** - The unfavorable variance of \$24,035 is due to a increased in professional services for student support.

**Communications** - The favorable variance of \$7,165 is due to a decrease in spending for phone lines.

**Utilities** - The favorable variance of \$83,132 is due to lower cost than anticipated for annex.

**Transportation** - The favorable variance of \$77,898 is due to fewer than anticipated transportation routes.

**Repairs and Maintenance** - The unfavorable variance of \$14,113 is due to increase in maintenance need around school.

**Supplies and Materials** - The favorable variance of \$78,813 is due to less than anticipated needs for instructional supplies.

**Capital Outlay** - The favorable variance of \$32,156 is due to construction cost related to the renovation of facility coming in less than estimated.

**Capital Assets**

The School has \$624,703 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. Detailed information regarding capital assets activity is included in the notes to the basic financial statements.

**Long-Term Debt**

The School does not have any debt as of June 30, 2018.

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2018

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

The School opened in August 2015. The School plans to grow enrollment over the next few years to its authorized chartered enrollment. Management anticipates that revenue and expenses will increase as a result of the enrollment growth and has developed a budget to support the identified growth. The School has identified a continued need to provide students with additional support services and educational programs. Many of these programs will require additional resources not adequately funded with federal, state, or local district revenue. Also, potential cutbacks in educational spending at the federal, state and local level could impact the School's financial resources to meet the State's accountability requirements. In anticipation of these events, the School is taking steps to increase the percentage of funding from nongovernmental resource. In August 2016, the School was successful in winning the national XQ Super School grant competition that will bring \$10 million in revenue (\$2 million for the next 5 years), which will have a positive impact on the School's future operation.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School's Director of Finance's at 302-292-5450.

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**

STATEMENT OF NET POSITION  
 JUNE 30, 2018

ASSETS	
Cash and cash equivalents	\$ 738,796
Receivables	12,425
Capital assets	
Depreciable assets	724,172
Accumulated depreciation	<u>(99,469)</u>
TOTAL CAPITAL ASSETS	624,703
Security deposit	<u>18,667</u>
TOTAL ASSETS	<u>1,394,591</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - OPEB	1,938,747
Deferred outflows of resources - pension activities	<u>809,374</u>
	<u>2,748,121</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
	<u>\$ 4,142,712</u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable and accrued expenses	\$ 800,959
Due to State of Delaware, pension costs	38,050
Accrued salaries and related costs	218,362
Net OPEB liability	4,668,987
Net pension liability	<u>848,504</u>
TOTAL LIABILITIES	<u>6,574,862</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - OPEB	554,314
Deferred inflows of resources - pension activities	<u>14,960</u>
	<u>569,274</u>
NET POSITION	
Invested in capital assets	624,703
Restricted	383,419
Unrestricted	<u>(4,009,546)</u>
TOTAL NET POSITION	<u>(3,001,424)</u>
TOTAL LIABILITIES AND NET POSITION	
	<u>\$ 4,142,712</u>

*See accompanying notes to the basic financial statements.*

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**

STATEMENT OF ACTIVITIES  
 JUNE 30, 2018

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	\$ 3,841,856	\$ 97,605	\$ 879,584	\$ -	\$ (2,864,667)
Supporting services					
Operation and maintenance of facilities	591,680	-	-	-	(591,680)
Transportation	289,602	-	-	-	(289,602)
School lunch services	114,585	-	98,781	-	(15,804)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 4,837,723</b>	<b>\$ 97,605</b>	<b>\$ 978,365</b>	<b>\$ -</b>	<b>(3,761,753)</b>
<b>GENERAL REVENUES</b>					
					1,304,776
					2,401,366
					2,215
					<u>3,708,357</u>
					CHANGE IN NET POSITION (53,396)
					NET POSITION AT BEGINNING OF YEAR (restated) <u>(2,948,028)</u>
					NET POSITION AT END OF YEAR \$ <u>(3,001,424)</u>

See accompanying notes to the basic financial statements.



**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**

BALANCE SHEET  
 GOVERNMENTAL FUND  
 JUNE 30, 2018

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 738,796
Receivables	12,425
Security deposit	<u>18,667</u>
TOTAL ASSETS	<u>\$ 769,888</u>
<b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 682,878
Due to State of Delaware, pension costs	218,362
Accrued salaries and related costs	<u>38,050</u>
TOTAL LIABILITIES	<u>939,290</u>
<b>FUND BALANCES</b>	
Restricted	383,419
Assigned	21,104
Unassigned	<u>(573,925)</u>
	<u>(169,402)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 769,888</u>

*See accompanying notes to the basic financial statements.*

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2018

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TOTAL GOVERNMENTAL FUND BALANCES	\$ (287,483)
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund. These assets consist of:</p>	
Depreciable capital assets	724,172
Accumulated depreciation	(99,469)
<p>Some long-term assets are not available for current period expenditures and, therefore are not reported in the funds.</p>	
Deferred contributions and changes in proportion related to OPEB	1,938,747
Deferred contributions and changes in proportion related to pensions	809,374
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>	
Net OPEB liability	(4,668,987)
Net pension liability	(848,504)
Deferred investment earnings related to OPEB	(554,314)
Deferred investment earnings related to pensions	<u>(14,960)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (3,001,424)</u>

*See accompanying notes to the basic financial statements.*

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2018

	<u>General Fund</u>
REVENUES	
State support	\$ 2,401,366
Federal support	138,561
Charges to school districts	1,304,776
Local fund-raising	741,023
Earnings on cash and investments	2,215
School programs	97,605
School lunch fees	98,781
TOTAL REVENUES	<u>4,784,327</u>
EXPENDITURES	
Current	
Instructional services	3,275,728
Supporting services	
Operation and maintenance of facilities	591,680
Transportation	289,602
School food services	114,585
Capital outlays	36,130
TOTAL EXPENDITURES	<u>4,307,725</u>
NET CHANGE IN FUND BALANCES	476,602
FUND BALANCES AT BEGINNING OF YEAR	<u>(764,085)</u>
FUND BALANCES AT END OF YEAR	<u>\$ (287,483)</u>

*See accompanying notes to the basic financial statements.*

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENTS OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENTS OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018

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NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL	\$ 476,602
<p>Capital outlays are reported in the Governmental Fund as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation in the current period.</p>	
Capital outlays	36,130
Depreciation expense	(50,911)
<p>The Governmental Fund reports pension contributions as expenditures. However, in the statement of activities, these contributions reduce the net OPEB liability and net pension liability.</p>	
Net OPEB liability	(419,359)
Net pension liability	<u>(95,858)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (53,396)</u>

*See accompanying notes to the basic financial statements.*

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

**Description of the Charter School**

Delaware Design-Lab High School (the "School") is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent Board of Directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions--most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. The School's initial charter was granted for a four-year period, renewable every five years thereafter. The School's first full year of school started August 2015. The initial charter expires on June 30, 2019. Management anticipates the School's charter will be renewed for an additional five years.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

The 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.

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 considered to be 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 (the "State") operations. The School has no component units for which it is considered to be financially accountable.

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

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statements of net position and the statements of activities) report information on all of the non-fiduciary activities of the School

The statements of activities demonstrate 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 instead as general revenues. Likewise, general revenues include charges to school districts.

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.

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.

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 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.

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

The School reports the following major Governmental Fund:

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

Encumbrance accounting is employed in the Governmental Fund. Encumbrances (e.g., purchase orders and contracts) outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There was \$21,103 in encumbrances outstanding as of June 30, 2018.

**Budgetary Data**

General Fund budgets are presented on the modified accrual basis of accounting. Annual appropriations lapse at fiscal year-end with the exception of those indicated as a fund balance reserve.

**Cash and Cash Equivalents**

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

**Capital Assets**

The School defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life more than one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal repairs and maintenance that does not add to the value of the asset or materially extend the life of the asset is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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>
Equipment	5
Leasehold improvements	5-15

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

**Compensated Absences**

Vacation plus related payroll taxes are accrued when incurred in the government-wide financial statements. The liability for these amounts is reported in the governmental funds only when the liability matures; for example, as a result of employee resignations and retirements. The School does not permit carryover of vacation or sick leave. As a result, the School does not recognize a liability for compensated absences.

**Deferred Outflows and 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 has two items that qualify for reporting in this category. The deferred outflow related to pension activities and deferred outflows related to OPEB activities 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 has two items that qualify for reporting in this category. Deferred inflows related to pension activities and deferred inflows related to OPEB activities, are reported in the government-wide statement of net position. The deferred inflow related to pension and OPEB 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 Balances**

In the fund financial statements, the Governmental Fund financial statements 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 respective Governmental Funds can be spent. 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 no items classified as being nonspendable.



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

- **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. The School had a balance of \$383,419 restricted for school programs as of June 30, 2018.
- **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 highest level of decision-making authority of the School). These amounts 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, 2018.
- **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.
- **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.

**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.

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**NOTE B - CASH AND CASH EQUIVALENTS**

At June 30, 2018, the School had a cash and cash equivalents balance of \$738,796. \$316,816 of the \$738,796 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware. 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 the financial statements.

The funds held by the state 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. 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. 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.

The School has concentrated its credit risk for cash by maintaining deposits in financial institutions which may, at times, exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The maximum loss that would have resulted from that risk was \$171,980 for the year ended June 30, 2018 for the excess of the deposit liabilities reported by the depository institutions over the amounts that would have been covered by federal insurance. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

**NOTE C - CAPITAL ASSETS**

Capital asset activity is as follows:

	Beginning Balance <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2018</u>
CAPITAL ASSETS BEING DEPRECIATED				
Equipment	\$ 14,724	\$ -	\$ -	\$ 14,724
Leasehold improvements	<u>673,318</u>	<u>36,130</u>	<u>-</u>	<u>709,448</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>688,042</u>	<u>36,130</u>	<u>-</u>	<u>724,172</u>
Accumulated depreciation				
Equipment	(4,908)	(5,038)	-	(9,946)
Leasehold improvements	<u>(43,650)</u>	<u>(45,873)</u>	<u>-</u>	<u>(89,523)</u>
TOTAL ACCUMULATED DEPRECIATION	<u>(48,558)</u>	<u>(50,911)</u>	<u>-</u>	<u>(99,469)</u>
CAPITAL ASSETS, net	<u>\$ 639,484</u>	<u>\$ (14,781)</u>	<u>\$ -</u>	<u>\$ 624,703</u>

Depreciation expense was \$50,911 for the year ended June 30, 2018, and is allocated \$45,873 to operations and \$5,038 to instructional services in the accompanying statement of activities.

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**NOTE D - 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.

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 67.7% with 2% reduction, 75% with 3% reduction, or 100% with a 6% reduction of benefit). Burial benefits of \$7,000 per member are also provided.

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

***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 9.58% of earnings for the Fiscal Year 2017. Contributions to the plan from the School were \$148,306 for the year ended June 30, 2018.

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

At June 30, 2018, the School reported a liability of \$848,504 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2016 to June 30, 2017. 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, 2017, the School's proportion was 0.0579%, which was an increase of 0.0238% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized a pension expense of \$244,164.

At June 30, 2018, 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	\$ 9,795	\$ 14,960
Changes in assumptions	166,720	-
Net difference between projected and actual investment earnings	99,193	-
Changes in proportions	385,360	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	148,306	-
	<u>\$ 809,374</u>	<u>\$ 14,960</u>

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

\$148,306 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension activity will be recognized in pension expense as follows:

<u>Year Ending</u> <u>June 30,</u>	
2019	\$ (129,222)
2020	(129,222)
2021	(129,222)
2022	(129,222)
2023	(129,220)
Thereafter	-

**Actuarial Assumptions** - The total pension liability as of June 30, 2017, was determined by rolling forward the System’s total pension liability as of the June 30, 2016 actuarial valuation to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

- **Investment Return** - 7.2%, includes inflation at 2.5%
- **Salary Increases** – 2.5% + Merit, includes inflation at 2.5%

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

Mortality assumptions are based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees and an adjusted version on MP-2105 Mortality improvement scale on a fully generational basis.

Projected benefit payments do not include the effect 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 pattern granting the changes and the consistency in the amount of the changes.

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**NOTE D - 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	33.5%	5.7%
International equity	13.7%	5.7%
Fixed income	26.6%	2.0%
Alternative investments	22.7%	7.8%
Cash and equivalents	3.5%	0.0%
	<u>100.0%</u>	

**Discount Rate** - The discount rate used to measure the total pension liability was 7.00%. The change in the discount rate assumption to 7.0% from 7.2% was due to an adoption by the Board of Trustees in Fiscal Year 2017. 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.

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

**Sensitivity of the 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 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Charter School's proportionate share of the net pension liability	\$ <u>1,528,083</u>	\$ <u>848,504</u>	\$ <u>272,974</u>

**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 McArde Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904.

**NOTE E - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**General Information about the OPEB Plan**

**Plan Description**

The State of Delaware's Other Postemployment Benefit (OPEB) Fund Trust (the Plan) is a cost-sharing multiple-employer defined benefit plan established in the Delaware Code. The Plan is administered by the Delaware Public Employees' Retirement System (DPERS). The State of Delaware (the State) is responsible for the policy and management of the OPEB benefits provided to retirees. The Plan's assets may be used only for the payment of benefits to the members of the Plan in accordance with the terms of the Plan. Additional financial and actuarial information with respect to the Plan may be found in the State of Delaware Comprehensive Annual Financial Report available online at <https://accounting.delaware.gov/>.

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**NOTE E - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

**Benefits Provided**

The Plan provides medical coverage to pensioners and their eligible dependents covered under the following pension plans: State Employees', New State Police, Judiciary and Closed State Police Pension Plans. This includes the employees of the State as well as employees of the State's component units and affiliated agencies which are part of the State Employees' Pension Plan. Those employers include Delaware Charter Schools. The participant's cost of Plan benefits is variable based on years of service within those pension plan categories. Pensioners who retire after July 1, 2012 and who become eligible for Medicare will pay an additional 5% of the Medicare Supplement offered by the State. Surviving spouses are eligible for coverage after a retiree's death.

**Funding Policy**

Participating employers fund the Plan for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of Plan members and the government are established and may not be amended by the State Legislature. Funds are recorded in the Plan for the payment of retiree healthcare claims, administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for healthcare are recorded in the Plan. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the Plan and is responsible for the financial management of the Plan.

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

At June 30, 2018, the School reported a liability of \$4,668,987 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability was determined by an actuarial valuation as of June 30, 2016 with update procedures used to roll forward the total OPEB liability to June 30, 2017. The School's proportion of the net OPEB liability was based on a projection of the School's long-term share of contributions of all participating employers, actuarially determined. At June 30, 2017, the School's proportion was 0.0579%.



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**NOTE E - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

For the year ended June 30, 2018, the School recognized OPEB expense of \$576,303. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion	\$ 1,781,803	\$ -
Changes in assumptions	-	545,069
Difference between projected and actual investment earnings	-	9,245
Contributions subsequent to the measurement date	<u>156,944</u>	<u>-</u>
	<u>\$ 1,938,747</u>	<u>\$ 554,314</u>

\$156,944 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	
2019	\$ 245,498
2020	245,498
2021	245,498
2022	245,498
2023	245,497
Thereafter	-

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**NOTE E - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

**Actuarial Assumptions**

The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Discount Rate – 3.58%
- Projected salary increases – 3.25% + Merit
- Healthcare cost trend rates – 7.00%

Mortality rates were based on the sex-distinct RP-2014 Total Dataset Healthy Annuitant Mortality Table, including adjustments for healthy annuitant and disabled annuitant factors for each covered Plan. Future mortality improvements are projected to 2020.

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

**Investments**

**Investment Policy** - The State Board of Pension Trustees is responsible for the management and investment of funds in the OPEB Trust. The Board authorized its investment committee to select the investment managers of the OPEB Trust following the established investment guidelines for DPERS until a separate investment policy is adopted for the OPEB Trust. The guidelines follow the prudent person standard, which requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar character and similar aims. The OPEB Trust investment objectives and policies currently include indexed exposure to approximate the DPERS' policy benchmark. The Investment Committee regularly reviews the OPEB investment performance, and considers investment vehicles which strike a balance between risk and return while being mindful of the government's time horizon for the OPEB investments. Plan assets are managed on a total return basis.

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**NOTE E - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

**Rate of Return** - For the year ended June 30, 2017, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 10.6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on the OPEB Trust 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 the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 (see the discussion of the OPEB Trust’s investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equities	36.70%	3.75%
International equities	19.20%	3.75%
Fixed income	38.10%	3.75%
Cash and cash equivalents	6.00%	0.00%
	<u>100.00%</u>	

**Discount Rate**

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

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2018

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**NOTE E - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)**

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

The following presents the School's proportionate share of the net OPEB liability, as well as what the School's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.58%) or 1-percentage point higher (4.58%) than the current discount rate:

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
Net OPEB liability (asset)	\$ 5,602,763	\$ 4,668,987	\$ 3,947,931

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

The following presents the School's proportionate share of the net OPEB liability, as well as what the School's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (8.5% decreasing to 4.5%) or 1-percentage point higher (10.5% decreasing to 6.5%) than the current healthcare cost trend rates:

	1% Decrease 6.00%	Healthcare Trend 7.00%	1% Increase 8.00%
Net OPEB liability (asset)	\$ 3,956,349	\$ 4,668,987	\$ 5,550,153

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position can be found in the separately issued State of Delaware Comprehensive Annual Financial Report available online at <https://accounting.delaware.gov/>.

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018

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**NOTE F - LEASING ARRANGEMENTS**

The School entered into a lease for facilities beginning May 15, 2015 for a five year term ending June 30, 2020 with the option to renew for an additional five years. Total rental expense to the building for the fiscal year ended June 30, 2018, was \$371,922. The School entered into a lease for modular classroom facilities beginning September 1, 2016 for 36 months at \$4,750 per month. Total rental expense for the fiscal year ended June 30, 2018 was \$56,995.

The following is a schedule of the future minimum rental under the leases at June 30, 2018:

Year Ending <u>June 30,</u>	
2019	\$ 363,250
2020	<u>324,500</u>
	<u>\$ 687,750</u>

The School leases its copier equipment under operating lease arrangements. Total rental expense for the year ended June 30, 2018, was \$7,565.

At June 30, 2018, the minimum future rental payments under noncancelable leasing arrangements having remaining terms in excess of one year for the remaining years and in the aggregate are:

Year Ending <u>June 30,</u>	
2019	\$ <u>1,890</u>

**NOTE G - RELATED-PARTY TRANSACTIONS**

During the year, the School utilized the services of a company, in which a Board Member has a controlling interest, as a provider for computer services. Expenses incurred for the services during the year ended June 30, 2018, were \$1,010.

In August, 2015, the School executed an agreement with Design-Lab Schools LLC to provide certain services to the School. Design-Lab Schools, LLC asserted a claim against the School in the amount of \$768,081, which appears as an outstanding payable on the School's books and records. The School has continually disputed the validity of the outstanding payable and the contract it was based upon.

Prior to June 30, 2018, the School and Design-Lab Schools, LLC resolved the outstanding payable referenced above. Due to a timing issue, however, the payable could not be removed from the school's books and records until July 13, 2018. Effective on July 13, 2018, the payable has been removed from the School's books and records and no longer will affect the school's financial position.

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018

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**NOTE H - RISK MANAGEMENT**

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

**NOTE 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 in excess of 10% of total revenues are comprised of the following:

State subsidy	49%
Charges to school districts	27%
Foundation grants	15%

**NOTE K - PRIOR PERIOD ADJUSTMENT**

The School implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, effective July 1, 2017. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pension plans. GASB Statement No. 75 states that local governments have to record their share of the State of Delaware Other Postemployment Benefits (OPEB) Fund Trust unfunded liability.

For the government-wide governmental activities, the School has treated their proportionate share of beginning of year net OPEB liability of \$2,999,356, beginning of year deferred outflows of resources of \$134,161 as having been recognized in the period incurred. The School has adjusted beginning net position for the governmental activities from (\$82,833) to (\$2,948,028).

## **REQUIRED SUPPLEMENTARY INFORMATION**

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2018

	Budgeted Amounts <u>Original</u>	Budgeted Amounts <u>Final</u>	Actual Amounts <u>Budgetary Basis</u>	Variance With Final Budget <u>Positive (Negative)</u>
<b>REVENUES</b>				
State support	\$ 2,698,621	\$ 2,320,944	\$ 2,401,366	\$ 80,422
Federal support	176,296	225,203	138,561	(86,642)
Charges to school districts	1,405,935	1,295,022	1,304,776	9,754
Local fundraising	20,000	835,562	741,023	(94,539)
Earnings on cash and investments	-	-	2,215	2,215
School programs	-	8,000	97,605	89,605
School lunch fees	124,413	124,413	98,781	(25,632)
<b>TOTAL REVENUES</b>	<u>4,425,265</u>	<u>4,809,144</u>	<u>4,784,327</u>	<u>(24,817)</u>
<b>EXPENDITURES</b>				
Current				
Salaries and benefits	2,055,060	2,313,737	2,208,162	105,575
Travel	5,000	17,345	25,446	(8,101)
Contractual services	695,437	909,712	933,747	(24,035)
Communications	19,000	19,000	11,835	7,165
Public utilities	60,000	120,500	37,368	83,132
Insurance	34,000	34,000	47,272	(13,272)
Transportation	367,500	367,500	289,602	77,898
Facility costs	434,412	438,912	427,926	10,986
Repairs and maintenance	65,000	65,000	79,113	(14,113)
Supplies and materials	226,615	289,936	211,123	78,813
Capital outlays	230,900	68,287	36,131	32,156
<b>TOTAL EXPENDITURES</b>	<u>4,192,924</u>	<u>4,643,929</u>	<u>4,307,725</u>	<u>336,204</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 232,341</u>	<u>\$ 165,215</u>	<u>\$ 476,602</u>	<u>\$ 311,387</u>

See accompanying notes to the budgetary comparison schedule.



**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
NOTES TO THE BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2018

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**NOTE A - BASIS OF ACCOUNTING**

The accompanying budgetary comparison schedule 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.

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

These excess expenditures were funded by various functions that were under budget in the General Fund and fund balance carried over from the prior year.

Travel	\$	8,101
Contractual services		24,035
Insurance		13,272
Repairs and maintenance		<u>14,113</u>
	\$	<u><u>32,136</u></u>

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
 SCHEDULE OF PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 LAST TWO FISCAL YEARS

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	<u>2017</u>	<u>2016</u>
PROPORTION OF THE NET PENSION LIABILITY (ASSET)	<u>0.0579%</u>	<u>0.0341%</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	\$ <u>848,504</u>	\$ <u>513,450</u>
School's covered-employee payroll	\$ <u>1,127,934</u>	\$ <u>1,127,516</u>
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>75.23%</u>	<u>45.54%</u>
THE PLAN'S FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>85.31%</u>	<u>84.10%</u>

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

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
 SCHEDULE OF CONTRIBUTIONS  
 LAST TWO FISCAL YEARS

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	<u>2018</u>	<u>2017</u>
CONTRACTUALLY REQUIRED CONTRIBUTION	\$ 148,306	\$ 108,016
CONTRIBUTIONS IN RELATION TO THE CONTRACTUALLY REQUIRED CONTRIBUTION	<u>148,306</u>	<u>108,016</u>
CONTRIBUTION (EXCESS) DEFICIENCY	<u>\$ -</u>	<u>\$ -</u>
COVERED-EMPLOYEE PAYROLL	<u>\$ 1,548,080</u>	<u>\$ 1,127,516</u>
CONTRIBUTIONS AS A PERCENTAGE OF COVERED- EMPLOYEE PAYROLL	<u>9.58%</u>	<u>9.58%</u>

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

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
SCHEDULE OF THE CHARTER SCHOOL'S PROPORTIONATE  
SHARE OF THE NET OPEB LIABILITY  
LAST FISCAL YEAR

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School's proportion of the net OPEB liability	<u>0.0566%</u>
School's proportionate share of the net OPEB liability	\$ <u>4,668,988</u>
School's covered-employee payroll	\$ <u>1,127,516</u>
School's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	<u>414.10%</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>4.13%</u>

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
SCHEDULE OF THE CHARTER SCHOOL'S CONTRIBUTIONS  
LAST FISCAL YEAR

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Contractually required contribution	\$ 134,161
Contributions in relation to the contractually required contribution	<u>134,161</u>
Contribution (excess) deficiency	\$ <u><u>-</u></u>
School's covered-employee payroll	\$ <u><u>1,127,516</u></u>
Contribution as a percentage of covered- employee payroll	<u><u>11.90%</u></u>

## **SUPPLEMENTARY INFORMATION SECTION**

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**

COMBINING BALANCE SHEET

GENERAL FUND

JUNE 30, 2018

	State Allocation	General Fund Local Funding	Federal Funding	Total Governmental Fund
<b>ASSETS</b>				
Cash and cash equivalents	\$ 22,092	\$ 716,704	\$ -	\$ 738,796
Receivables	-	-	12,425	12,425
Security deposit	-	18,667	-	18,667
	<u>22,092</u>	<u>735,371</u>	<u>12,425</u>	<u>769,888</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>22,092</u></b>	<b>\$ <u>735,371</u></b>	<b>\$ <u>12,425</u></b>	<b>\$ <u>769,888</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ -	\$ 800,959	\$ -	\$ 800,959
Due to State of Delaware, pension costs	-	208,108	10,254	218,362
Accrued salaries and related costs	-	35,879	2,171	38,050
	<u>-</u>	<u>1,044,946</u>	<u>12,425</u>	<u>1,057,371</u>
<b>TOTAL LIABILITIES</b>	<b>\$ <u>-</u></b>	<b>\$ <u>1,044,946</u></b>	<b>\$ <u>12,425</u></b>	<b>\$ <u>1,057,371</u></b>
<b>FUND BALANCES</b>				
Restricted	-	383,419	-	383,419
Assigned	18,331	2,773	-	21,104
Unassigned	3,761	(695,767)	-	(692,006)
	<u>22,092</u>	<u>(309,575)</u>	<u>-</u>	<u>(287,483)</u>
<b>TOTAL FUND BALANCES</b>	<b>\$ <u>22,092</u></b>	<b>\$ <u>(309,575)</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>(287,483)</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>22,092</u></b>	<b>\$ <u>735,371</u></b>	<b>\$ <u>12,425</u></b>	<b>\$ <u>769,888</u></b>

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018

	General Fund			Total Governmental Fund
	State Allocation	Local Funding	Federal Funding	
<b>REVENUES</b>				
State support	\$ 2,401,366	\$ -	\$ -	\$ 2,401,366
Federal support	-	-	138,561	138,561
Charges to school districts	-	1,304,776	-	1,304,776
Local fund-raising	-	741,023	-	741,023
Earnings on cash and investments	-	2,215	-	2,215
School programs	-	97,605	-	97,605
School lunch fees	-	98,781	-	98,781
<b>TOTAL REVENUES</b>	<u>2,401,366</u>	<u>2,244,400</u>	<u>138,561</u>	<u>4,784,327</u>
<b>EXPENDITURES</b>				
Current				
Instructional services	1,941,306	1,195,861	138,561	3,275,728
Supporting services				
Operation and maintenance of facilities	289,881	301,799	-	591,680
Transportation	120,871	168,731	-	289,602
School food services	715	113,870	-	114,585
Capital outlays	30,130	6,000	-	36,130
<b>TOTAL EXPENDITURES</b>	<u>2,382,903</u>	<u>1,786,261</u>	<u>138,561</u>	<u>4,307,725</u>
<b>NET CHANGE IN FUND BALANCES</b>	18,463	458,139	-	476,602
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<u>3,629</u>	<u>(767,714)</u>	<u>-</u>	<u>(764,085)</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 22,092</u>	<u>\$ (309,575)</u>	<u>\$ -</u>	<u>\$ (287,483)</u>



**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018

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EXPENDITURES

Current

Salaries and benefits	\$ 2,208,162
Travel	25,446
Contractual services	933,747
Communications	11,835
Public utilities	37,368
Insurance	47,272
Transportation	289,602
Facility costs	427,926
Repairs and maintenance	79,113
Supplies and materials	211,123
Capital outlays	<u>36,131</u>

TOTAL EXPENDITURES \$ 4,307,725

***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  
Delaware Design-Lab High School  
Newark, 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 Delaware Design-Lab High School as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Delaware Design-Lab High School's basic financial statements, and have issued our report thereon dated September 28, 2018.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Delaware Design-Lab High 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 Delaware Design-Lab High School's internal control. Accordingly, we do not express an opinion on the effectiveness of Delaware Design-Lab High School's internal control.

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

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

To the Board of Directors  
Delaware Design-Lab High School  
Newark, Delaware

***Compliance and Other Matters***

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

***Purpose of this Report***

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

*Maille LLP*

West Chester, Pennsylvania  
September 28, 2018

**DELAWARE DESIGN-LAB HIGH SCHOOL**  
**(A Component Unit of the State of Delaware)**  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2018

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None