



EASTSIDE CHARTER SCHOOL
(A Component Unit of the State of Delaware)
WILMINGTON, DELAWARE

FINANCIAL STATEMENTS

JUNE 30, 2018

EASTSIDE CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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INDEPENDENT AUDITOR'S REPORT

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September 28, 2018

Board of Directors
EastSide Charter School
Wilmington, Delaware

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion on the reporting entity and unmodified opinions on the governmental activities and major fund.

Board of Directors
EastSide Charter School

Basis for Adverse Opinion on the Reporting Entity

The financial statements referred to above include only the primary government of EastSide Charter School, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise EastSide Charter School's legal entity. The financial statements do not include financial data for EastSide Charter School's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of EastSide Charter School's primary government.

Adverse Opinion on the Reporting Entity

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of EastSide Charter School as of June 30, 2018 and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the Governmental Activities and Major Fund

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

Emphasis of a Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, and the budgetary comparison information, schedule of the School's proportionate share of the net pension liability, schedule of School pension contributions, schedule of the School's proportionate share of the net OPEB liability, and schedule of School OPEB contributions on pages 35 through 39 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

Board of Directors
EastSide Charter School

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 School's basic financial statements. The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - governmental funds, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, schedule of expenditures by natural classification - general fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - general fund are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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


BARBACANE, THORNTON & COMPANY LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

EASTSIDE CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

EastSide Charter School ("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, 2018, its 21st year of operation, as contained in the report on its financial statements prepared by the School's outside auditors.

FINANCIAL HIGHLIGHTS

The School's net position decreased by \$233,911 or 1.72 percent, resulting in a deficit of \$13,865,515 as of June 30, 2018.

The School implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The purpose of this statement is to improve transparency, consistency, and comparability of postemployment benefits other than pensions reported by state and local governments (e.g. charter schools and school districts). The implementation of GASB Statement No. 75 has had an impact on the entity-wide statements. The School is now required to report its proportionate share of the net other post-employment benefits ("OPEB") liability. This portion of the net OPEB liability was the main contributing factor resulting in a total deficit in net position of \$13,865,515. The net OPEB liability reported in these financial statements at June 30, 2018 totals \$13,010,331. While the net OPEB liability is significant to the School's financial statements, it is a liability that the School has limited control over. This liability is anticipated to continue to increase in future years as medical costs increase. Reporting in the governmental fund is not affected by the implementation of this statement.

The largest changes in the School's statement of net position compared to FY 2017 can be seen in the change in deferred inflows of resources. Deferred inflows increased by \$1,529,640. This increase is driven by the implementation of GASB Statement No. 75 during the fiscal year.

The School does not include the financial data of its legally separate component unit which accounting principles generally accepted in the United States of America require to be reported with the financial data of the School. The information is not included since we feel by including the data would skew the financial data of the School due to the substantial assets held by the component unit without any debt or other liabilities.

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 that the reader can understand the School as a whole and then proceed to provide an increasingly detailed look at specific financial activities.

EASTSIDE CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Position and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net position and the changes in net position. 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 in arriving at a conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

This analysis of the School's major funds and fund financial statements provides detailed information about the most significant funds - not the School as a whole. Some funds are required to be established by State statute, while many other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to financial statements.

Governmental Funds

Most of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual accounting method, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

EASTSIDE CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$1,512,997 (exclusive of deferred outflows of resources, net pension and OPEB liabilities, and deferred inflows of resources. Note that investment in capital assets is reported net of related debt and net of depreciation. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

**Table 1
NET POSITION
JUNE 30, 2018 AND 2017**

	Governmental Activities	
	2018	2017
ASSETS		
Current assets:		
Cash and pooled cash	\$ 1,879,909	\$ 1,786,328
Receivables	119,887	99,147
Prepaid expenses	60,000	8,502
Total Current Assets	2,059,796	1,893,977
Noncurrent assets:		
Capital assets, net of depreciation	102,196	80,285
Deferred outflows of resources:		
Deferred pension items	1,237,872	1,456,981
Deferred OPEB items	394,872	373,845
Total Deferred Outflows of Resources	1,632,744	1,830,826
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	3,794,736	3,805,088
LIABILITIES		
Current liabilities:		
Accounts payable	31,548	45,284
Accrued salaries and related costs	617,447	555,379
Total Current Liabilities	648,995	600,663
Noncurrent liabilities:		
Net pension liability	2,364,393	2,445,219
Net OPEB liability	13,010,331	14,283,918
Total Noncurrent Liabilities	15,374,724	16,729,137
TOTAL LIABILITIES	16,023,719	17,329,800

EASTSIDE CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

**Table 1
NET POSITION
JUNE 30, 2018 AND 2017**

(cont'd)	Governmental Activities	
	2018	2017
DEFERRED INFLOWS OF RESOURCES		
Deferred pension items	91,913	106,892
Deferred OPEB items	1,544,619	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,636,532	106,892
NET POSITION (DEFICIT)		
Investment in capital assets	102,196	80,285
Restricted	61,399	101,716
Unrestricted deficit	(14,029,110)	(13,813,605)
TOTAL NET DEFICIT	\$(13,865,515)	\$(13,631,604)

A portion of the School's net position represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the School's ongoing activities.

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

	Governmental Activities	
	2018	2017
REVENUES		
General revenues:		
Charges to school districts	\$ 1,998,395	\$ 1,961,555
Payments from primary government	3,475,177	3,561,699
Interest income	9,109	18,645
Miscellaneous	553,811	708,691
Program revenues:		
Charges for services	183,417	237,741
Operating grants and contributions	982,683	960,313
Total Revenues	7,202,592	7,448,644

EASTSIDE CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

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

(cont'd)	Governmental Activities	
	2018	2017
EXPENSES		
Instructional services	6,156,579	5,576,933
Support services:		
Operation and maintenance of facilities	513,168	485,314
Transportation	368,676	660,316
Food service	398,080	427,016
Summer program	-	4,771
Total Expenses	<u>7,436,503</u>	<u>7,154,350</u>
CHANGE IN NET POSITION	<u>\$ (233,911)</u>	<u>\$ 294,294</u>

Governmental Activities

Net position of the School's governmental activities decreased by \$233,911, and unrestricted net position reflects a negative balance of \$14,029,110. The decrease in net position is primarily the result of the additional pension and OPEB expenditures recognized in FY 2018.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The next table reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues that include charges to school districts, investment earnings, and state entitlements must support the net cost of the School's programs.

	2018 Services		2017 Services	
	Total Cost	Net Cost	Total Cost	Net Cost
GOVERNMENTAL ACTIVITIES				
Instructional services	\$ 6,156,579	\$ 5,348,273	\$ 5,576,933	\$ 4,756,790
Support services:				
Operation and maintenance of facilities	513,168	513,168	485,314	485,314
Transportation	368,676	368,676	660,316	660,316
Food service	398,080	40,286	427,016	49,105
Summer program	-	-	4,771	4,771
TOTAL	<u>\$ 7,436,503</u>	<u>\$ 6,270,403</u>	<u>\$ 7,154,350</u>	<u>\$ 5,956,296</u>

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$6,270,403 of support, as well as general revenues comprising 83.81 percent of total revenues.

EASTSIDE CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

THE SCHOOL'S FUND

The School's governmental fund (as presented on the balance sheet) reported a combined fund balance of \$1,410,801, compared to last year's total of \$1,293,314. The schedule below indicates the fund balances and the total change in fund balances as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Fund Balances:			
Nonspendable	\$ 60,000	\$ 8,502	\$ 51,498
Restricted	61,399	101,716	(40,317)
Unassigned	<u>1,289,402</u>	<u>1,183,096</u>	<u>106,306</u>
 Governmental Funds	 <u>\$ 1,410,801</u>	 <u>\$ 1,293,314</u>	 <u>\$ 117,487</u>

Governmental Fund

The School's fund balance increase is due to a variety of factors. The tables that follow assist in illustrating the financial activities and balance of governmental funds.

	<u>Total Governmental Funds</u>	
	<u>2018</u>	<u>2017</u>
REVENUES:		
Charges to school districts	\$ 1,998,395	\$ 1,961,555
State aid	3,475,177	3,561,699
Federal aid	1,166,100	1,198,054
Interest income	9,109	18,645
Other revenues	553,811	708,691
TOTAL REVENUES	<u>7,202,592</u>	<u>7,448,644</u>
 EXPENDITURES:		
Current:		
Instruction	5,783,270	5,424,954
Operation and maintenance of facilities	469,052	663,259
Transportation	368,676	486,314
Food service	398,080	427,016
Capital outlays:		
Property and equipment	66,027	76,733
TOTAL EXPENDITURES	<u>7,085,105</u>	<u>7,078,276</u>
 NET CHANGE IN FUND BALANCE	 117,487	 370,368
 FUND BALANCE, BEGINNING OF YEAR	 <u>1,293,314</u>	 <u>922,946</u>
 FUND BALANCE, END OF YEAR	 <u>\$ 1,410,801</u>	 <u>\$ 1,293,314</u>

EASTSIDE CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

GENERAL FUND AND DEBT SERVICE FUND BUDGET INFORMATION

The School's budget is prepared on the cash basis of accounting. The general fund is the School's operating (and only) fund. The School may amend its revenue and expenditure estimates periodically due to changing conditions.

The School budget contained \$7,182,077 of revenues and \$7,088,496 of expenditures. Actual revenues were \$732 under budget, and actual expenditures were \$256,656 under budget.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 35.

Revenues

State Aid

An unfavorable variance of \$137,681 is attributable to the fact that the School uses FY1 2017 carryover funds to supplement the operating budget, which are not recognized as actual revenue for the current fiscal year.

Federal Aid

A favorable variance of \$183,512 is attributable primarily to additional federal grants and awards being made to the School to support their special education population and child nutrition program.

Expenditures

Salaries and Employment Costs

A favorable variance of \$107,721 in salaries and \$73,564 in employment costs are due to a combination of reasons stemming from various employee leaves of absence and mid-year staff attrition who were replaced with cheaper long-term subs or full-time staff.

Educational Services

A favorable variance of \$86,796 is a result of lower than expected contracted special education, substitute, and student body activity costs compared to prior years.

Special Programs

An unfavorable variance of \$50,623 is a result of the School receiving additional federal funds throughout the year and spending them accordingly. This negative variance is more than offset by the additional revenue received in federal aid.

EASTSIDE CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

Summer Programs

An unfavorable variance of \$145,692 is a result of receiving 21st Century funds earlier than expected, which allowed us to pass along funds to our summer partners prior to the fiscal year closeout.

Contingency Reserve

A contingency reserve of \$107,566 was budgeted, but none was spent during the fiscal year ended June 30, 2018. The School is required to budget this contingency but does not charge any expenses against it.

CAPITAL ASSETS

The School has \$102,196 invested in capital assets, net of depreciation. Acquisitions for governmental activities totaled \$66,027, and depreciation was \$44,116. Detailed information regarding capital asset activity is included in Note D to the financial statements.

DEBT ADMINISTRATION

Other obligations include the School's proportionate share of the net pension and OPEB liabilities. More detailed information about long-term liabilities and the net pension and OPEB liabilities is included in Notes F and G to the financial statements, respectively.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Fiscal year 2018 was the 21st year of operation as a functioning school.

The financial model the School has developed is based on the funding formula currently in effect under the Delaware Charter School Law. If the funding formula for charter schools changes, adjustments to the underlying assumptions of the model will have to be made.

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, please contact Mr. Aaron Bass, Chief Executive Officer, at the School office, 3000 North Claymont Street, Wilmington, Delaware 19802-2807 or via phone at (302) 762-5834.

BASIC FINANCIAL STATEMENTS

**EASTSIDE CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2018**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
CURRENT ASSETS:	
Cash and pooled cash	\$ 1,879,909
Due from other governments	119,887
Prepaid expenses	<u>60,000</u>
Total Current Assets	<u>2,059,796</u>
NONCURRENT ASSETS:	
Capital assets, net of depreciation	<u>102,196</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Deferred pension contributions	347,940
Deferred pension expense	889,932
Deferred OPEB contributions	368,206
Deferred OPEB expense	<u>26,666</u>
Total Deferred Outflows of Resources	<u>1,632,744</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 3,794,736</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT	
CURRENT LIABILITIES:	
Accounts payable	\$ 31,548
Accrued salaries and related costs	<u>617,447</u>
Total Current Liabilities	<u>648,995</u>
NONCURRENT LIABILITIES:	
Net pension liability	2,364,393
Net OPEB liability	<u>13,010,331</u>
Total Noncurrent Liabilities	<u>15,374,724</u>
 TOTAL LIABILITIES	 <u>16,023,719</u>
 DEFERRED INFLOWS OF RESOURCES:	
Deferred pension expense	91,913
Deferred OPEB expense	<u>1,544,619</u>
Total Deferred Inflows of Resources	<u>1,636,532</u>
 NET POSITION (DEFICIT):	
Investment in capital assets	102,196
Restricted for specific programs	61,399
Unrestricted (deficit)	<u>(14,029,110)</u>
 TOTAL NET DEFICIT	 <u>(13,865,515)</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT	 <u>\$ 3,794,736</u>

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

**EASTSIDE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

		Program Revenues			Net (Expense) Revenues and Changes in Net Deficit
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	\$	
GOVERNMENTAL ACTIVITIES:					
Instructional services	\$ (6,156,579)	\$ 624,889	\$ -	\$	\$ (5,348,273)
Support services:					
Operation and maintenance of facilities	(513,168)	-	-		(513,168)
Transportation	(368,676)	-	-		(368,676)
School lunch services	(398,080)	357,794	-		(40,286)
TOTAL GOVERNMENTAL ACTIVITIES	\$ (7,436,503)	\$ 982,683	\$ -	\$	(6,270,403)
GENERAL REVENUES:					
Charges to school districts					1,998,395
State aid not restricted to specific purposes					3,475,177
Earnings on cash and investments					9,109
Miscellaneous revenues					553,811
TOTAL GENERAL REVENUES					6,036,492
CHANGE IN NET DEFICIT					(233,911)
NET DEFICIT, BEGINNING OF YEAR, RESTATED					(13,631,604)
NET DEFICIT, END OF YEAR					\$ (13,865,515)

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

**EASTSIDE CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2018**

ASSETS		
Cash and pooled cash	\$	1,879,909
Due from other governments		119,887
Prepaid expenses		<u>60,000</u>
TOTAL ASSETS		<u><u>\$ 2,059,796</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$	31,548
Accrued salaries and related costs		<u>617,447</u>
Total Liabilities		<u><u>648,995</u></u>
FUND BALANCE:		
Nonspendable, prepaid items		60,000
Restricted for:		
Food service		6,442
E-Rate		3,849
Capital improvements		51,108
Unassigned		<u>1,289,402</u>
Total Fund Balance		<u><u>1,410,801</u></u>
TOTAL LIABILITIES AND FUND BALANCE		<u><u>\$ 2,059,796</u></u>

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

**EASTSIDE CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND TO
STATEMENT OF NET POSITION
JUNE 30, 2018**

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 1,410,801

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

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net position. 102,196

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

Net pension liability	\$ (2,364,393)	
Net OPEB liability	<u>(13,010,331)</u>	(15,374,724)

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

Deferred outflows:		
Pension contributions	347,940	
Pension expenses	889,932	
Deferred inflows:		
Pension expenses	<u>(91,913)</u>	<u>1,145,959</u>

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

Deferred outflows:		
OPEB contributions	368,206	
OPEB expenses	26,666	
Deferred inflows:		
OPEB expenses	<u>(1,544,619)</u>	<u>(1,149,747)</u>

TOTAL NET DEFICIT - GOVERNMENTAL ACTIVITIES \$(13,865,515)

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

**EASTSIDE CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

REVENUES	
Charges to school districts	\$ 1,998,395
State aid	3,475,177
Federal aid	1,166,100
Earnings on cash and investments	9,109
Miscellaneous	553,811
TOTAL REVENUES	<u>7,202,592</u>
EXPENDITURES	
Current:	
Instruction	5,783,270
Operation and maintenance of facilities	469,052
Transportation	368,676
School lunch services	398,080
Capital outlays:	
Equipment	29,800
Building improvements	36,227
TOTAL EXPENDITURES	<u>7,085,105</u>
NET CHANGE IN FUND BALANCE	117,487
FUND BALANCE, BEGINNING OF YEAR	<u>1,293,314</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 1,410,801</u></u>

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

**EASTSIDE CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ 117,487

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$66,027) exceeded depreciation expense (\$44,116). 21,911

Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the School's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (123,304)

OPEB expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the School's proportionate share of the expenses of the cost-sharing pension plan, whereas OPEB expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (250,005)

CHANGE IN NET DEFICIT - GOVERNMENTAL ACTIVITIES \$ (233,911)

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

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

EastSide Charter ("the School") was formed in 1997 as a nonprofit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The School was established to provide a strong learning atmosphere and educational program to "at-risk" students.

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

Reporting Entity

The School 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 a 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 independence, 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 one component unit, The EastSide Community Learning Center Foundation ("the Foundation"), for which it is considered to be financially accountable. The Foundation was legally formed on February 7, 2006, with the primary purpose of fund raising and any other activities necessary to support the School. The component unit has not been reflected in these financial statements.

Entity-wide and Fund Financial Statements

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

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to students who purchase, use, or directly benefit from goods and services provided; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenues not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for the governmental fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and capital leases are recorded only when payment is due.

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

Capital Assets

Capital assets, which include furniture and equipment, are reported in the entity-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$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 repairs and maintenance that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

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

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

Furniture and equipment	5 years
Transportation equipment	5 years
Leasehold improvements	5 years

Deferred Inflows and Outflows of Resources

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

Compensated Absences

Vacation – Employees are not paid for unused vacation upon resignation or termination, unless otherwise stated in the employee contract. Twelve-month salaried employees are entitled up to 10 days of vacation each year.

Sick and Personal Leave – Employees are not paid for unused sick or personal leave upon resignation or termination. Sick leave allowances are as follows: 7 days for 10-month salaried employees, 10 days for 11-month salaried employees, and 10 days for 12-month salaried employees.

Unused absences may be rolled over to the following year; however, such days can only be used for FMLA-qualified leave. No accumulated time will be paid out upon termination or separation.

Fund Balance

Fund balance will be displayed in the following classification (if applicable) depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of Directors. The Board is the highest level of decision-making authority for the School. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Principal may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the School considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board or Principal has provided otherwise in its commitment or assignment actions.

Net Position

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

Use of Estimates in the Preparation of Financial Statements

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

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

Income Tax Status

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

Implementation of GASB Statement

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

NOTE B CASH AND POOLED CASH

At June 30, 2018, the School had a cash equivalents balance of \$1,879,909. Of that amount, \$1,879,683 was part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

At June 30, 2018, the reported amount of the School's deposits outside of the State Treasurer's Office was \$226. The bank balance at June 30, 2018 was \$271, of which the full amount was covered by federal depository insurance.

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE C INTERGOVERNMENTAL RECEIVABLES

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

Description	
Passed through the State of Delaware:	
Federal government	\$ 119,887
Total Intergovernmental Receivables	<u>\$ 119,887</u>

NOTE D CAPITAL ASSETS

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

	Beginning Balances	Increases	Decreases	Ending Balances
General capital assets being depreciated:				
Furniture and equipment	\$ 430,123	\$ 29,800	\$ -	\$ 459,923
Transportation equipment	56,840	-	-	56,840
Leasehold improvements	273,972	36,227	-	310,199
Accumulated depreciation	<u>(680,650)</u>	<u>(44,116)</u>	-	<u>(724,766)</u>
Total capital assets being depreciated, net	<u>\$ 80,285</u>	<u>\$ 21,911</u>	<u>\$ -</u>	<u>\$ 102,196</u>

For the year ended June 30, 2018, depreciation expense of \$44,116 was included in operation and maintenance of facilities on the statement of activities.

NOTE E FUND BALANCE

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

General fund - unassigned	\$1,289,402
General fund - nonspendable	60,000
General fund - restricted	<u>61,399</u>
	<u>\$1,410,801</u>

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE F PENSION PLAN

Plan Description

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

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

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

Plan Description and Eligibility

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

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

Benefits Provided

Service Benefits

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

Vesting

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

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE F PENSION PLAN (cont'd)

Retirement

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

Disability Benefits

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

Survivor and Burial Benefits

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

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

Contributions

Member Contributions

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

Employer Contributions

Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2018, the rate of the employer contribution was 11.52 percent of covered payroll. The School's contribution to PERS for the year ended June 30, 2018 was \$347,940.

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE F PENSION PLAN (cont'd)

PRI Contribution

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

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

At June 30, 2018, the School reported a liability of \$2,364,393 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net pension liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2017, the School's proportion was 0.1613 percent, which was a decrease of 0.0010 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized a pension expense of \$471,244. 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>
Net difference between projected and actual investment earnings	\$ 276,406	\$ -
Changes in assumptions	464,572	
Changes in proportions	121,660	50,227
Difference between actual and expected experience	27,294	41,686
Contributions subsequent to the date of measurement	<u>347,940</u>	<u>-</u>
	<u>\$ 1,237,872</u>	<u>\$ 91,913</u>

An amount of \$347,940 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE F PENSION PLAN (cont'd)

Year Ending June 30,

2019	\$	108,691
2020		344,626
2021		249,690
2022		18,361
2023		<u>76,651</u>
	\$	<u>798,019</u>

Actuarial Assumptions

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

- Investment return/discount rate – 7.0 percent, including inflation of 2.5 percent
- Salary increases – 2.5 to 11.5 percent, including inflation of 2.5 percent
- Cost-of-living adjustments – ad hoc

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

Mortality rates were based on the RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees, and an adjusted version on the MP-2015 mortality improvement scale on a fully generational basis.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset

EASTSIDE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE F PENSION PLAN (cont'd)

class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan are summarized in the following table:

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

Discount Rate

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

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

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

	<u>1% Decrease 6.0%</u>	<u>Current Rate Discount Rate 7.0%</u>	<u>1% Increase 8.0%</u>
School's proportionate share of the net pension liability	\$ 4,256,465	\$ 2,364,393	\$ 760,366

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE F PENSION PLAN (cont'd)

Pension Plan Fiduciary Net Position

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

NOTE G OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description

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

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

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

Plan Description and Eligibility

The State of Delaware Employees' Other Postemployment Benefit ("OPEB") Fund Trust is a cost-sharing multiple employer plan that covers all employees of the State that are eligible to participate in the defined benefit pension plan, including employees of other affiliated entities.

Benefits Provided

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

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE G OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Contributions

Member Contributions

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

Employer Contributions

Participating employers fund the Plan for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. For the year ended June 30, 2018, the rate of the employer contribution was 12.19 percent of covered payroll. The School's contribution to the Plan for the year ended June 30, 2018 was \$368,206.

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

At June 30, 2018, the School reported a liability of \$13,010,331 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total pension liability used to calculate the net OPEB liability was determined by rolling forward the Plan's total OPEB liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net OPEB liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2017, the School's proportion was 0.1576 percent, which was an increase of 0.0004 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$618,211. 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>
Net difference between projected and actual investment earnings	\$ -	\$ 25,761
Changes in proportions	26,666	-
Changes in assumptions	-	1,518,858
Contributions subsequent to the date of measurement	<u>368,206</u>	<u>-</u>
	<u>\$ 394,872</u>	<u>\$ 1,544,619</u>

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE G OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

An amount of \$368,206 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in OPEB expense as follows:

Year Ending June 30,	
2019	\$ (304,879)
2020	(304,879)
2021	(304,879)
2022	(304,879)
2023	(298,437)
	\$ (1,517,953)

Actuarial Assumptions

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

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

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

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

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE G OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Discount Rate

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

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

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

	1% Decrease 2.58%	Current Rate Discount Rate 3.58%	1% Increase 4.58%
School's proportionate share of the net pension liability	\$ 15,599,972	\$ 13,010,331	\$ 10,992,365

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

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

	1% Decrease 6.0%	Current Rate Discount Rate 7.0%	1% Increase 8.0%
School's proportionate share of the net pension liability	\$ 11,015,804	\$ 13,010,331	\$ 15,453,489

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE G OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Plan Fiduciary Net Position

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

NOTE H COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services.

Grants

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

NOTE I RISK MANAGEMENT

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

NOTE J BUDGET SCHEDULE

The School's budget is prepared on the cash basis of accounting. The following reconciles the net change in fund balances per the budgetary basis to the net change in fund balance per the modified accrual basis.

EXCESS OF INFLOWS OVER OUTFLOWS	\$ 93,581
Net increase in prepaids	51,498
Net increase in receivables	20,740
Net decrease in accounts payable	13,736
Net increase in accrued liabilities	<u>(62,068)</u>
 NET CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS	 <u>\$ 117,487</u>

EASTSIDE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE K EXCESS EXPENDITURES OVER APPROPRIATIONS

The following general fund functions incurred expenditures in excess of budget appropriations in the following amounts for the year ended June 30, 2018:

Educational supplies	\$ 14,393
Special programs	\$ 50,623
Summer programs	\$ 145,692

The excess expenditures were covered by other expenditure categories that were less than their budgeted appropriations.

NOTE L DEFICIT NET POSITION

For governmental activities, the unrestricted net deficit amount of \$14,029,110 includes the effect of deferring the recognition of pension and OPEB contributions made subsequent to the measurement date of the net pension liability and net OPEB liability, and the deferred outflows related to the pension and OPEB plans. This is offset by the School's actuarially determined net pension liability and net OPEB liability, and the deferred inflows related to the pension and OPEB plans.

NOTE M PRIOR PERIOD RESTATEMENT

The School has decreased its July 1, 2016 net position by \$13,910,073 due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The School recorded a beginning deferred outflow for OPEB contributions of \$373,845 and a beginning net OPEB liability of \$14,283,918.

NOTE N SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 28, 2018, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**EASTSIDE CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final	Budgetary Basis	
REVENUES				
Charges to school districts	\$ 2,016,385	\$ 2,012,198	\$ 1,998,395	\$ (13,803)
State aid	3,656,560	3,612,858	3,475,177	(137,681)
Federal aid	979,734	959,294	1,142,806	183,512
Earnings on cash and investments	15,000	15,000	9,109	(5,891)
Other local sources	651,274	583,459	556,590	(26,869)
TOTAL REVENUES	<u>7,318,953</u>	<u>7,182,809</u>	<u>7,182,077</u>	<u>(732)</u>
EXPENDITURES				
Current:				
Salaries	3,564,795	3,505,832	3,398,111	107,721
Employment costs	1,820,996	1,658,265	1,584,701	73,564
Food service	354,269	313,420	307,105	6,315
Transportation	334,314	387,761	368,676	19,085
Central office expenses	92,986	87,116	64,520	22,596
Educational services	305,637	330,578	243,782	86,796
Educational supplies	135,207	168,711	183,104	(14,393)
Professional services	51,880	51,880	39,630	12,250
Supplies and materials	75,000	79,000	61,012	17,988
Special programs	151,000	124,000	174,623	(50,623)
Summer programs	35,792	49,771	195,463	(145,692)
Repairs and maintenance	397,075	396,482	395,070	1,412
Contingency reserve	106,812	107,556	-	107,556
Capital outlays:				
Equipment	-	31,440	30,440	1,000
Building improvement	-	53,072	42,259	10,813
TOTAL EXPENDITURES	<u>7,425,763</u>	<u>7,344,884</u>	<u>7,088,496</u>	<u>256,388</u>
NET CHANGE IN FUND BALANCE	<u>\$ (106,810)</u>	<u>\$ (162,075)</u>	93,581	<u>\$ 255,656</u>
FUND BALANCE, BEGINNING OF YEAR			<u>1,293,314</u>	
FUND BALANCE, END OF YEAR			<u>\$ 1,386,895</u>	

**EASTSIDE CHARTER SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>MEASUREMENT DATE</u>		
	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
School's proportion of the net pension liability	0.1613%	0.1623%	0.1695%
School's proportion of the net pension liability - dollar value	\$ 2,364,393	\$ 2,445,219	\$ 1,127,604
School's covered employee payroll	\$ 3,148,441	\$ 3,101,119	\$ 3,161,088
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	75.10%	79.01%	35.67%
Plan fiduciary net position as a percentage of the total pension liability	85.31%	84.11%	92.67%
			95.80%

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

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

**EASTSIDE CHARTER SCHOOL
SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2018</u>	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 347,940	\$ 300,991	\$ 296,467	\$ 302,000
Contributions in relation to the contractually required contribution	<u>347,940</u>	<u>300,991</u>	<u>296,467</u>	<u>302,000</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 3,020,313	\$ 3,148,441	\$ 3,101,119	\$ 3,161,088
Contributions as a percentage of covered-employee payroll	11.52%	9.56%	9.56%	9.56%

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

**EASTSIDE CHARTER SCHOOL
 SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2018**

<u>PROPORTIONATE SHARE OF NET OPEB LIABILITY</u>	<u>MEASUREMENT DATE</u> <u>JUNE 30, 2017</u>
School's proportion of the net OPEB liability	0.1576%
School's proportion of the net OPEB liability - dollar value	\$ 13,010,331
School's covered employee payroll	\$ 3,020,313
School's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	430.76%
Plan fiduciary net position as a percentage of the total OPEB liability	4.13%

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

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

**EASTSIDE CHARTER SCHOOL
SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2018</u>
Contractually required contribution	\$ 368,206
Contributions in relation to the contractually required contribution	<u>368,206</u>
Contribution excess	<u>\$ -</u>
School's covered employee payroll	\$ 3,592,254
Contributions as a percentage of covered-employee payroll	10.25%

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

SUPPLEMENTARY INFORMATION

**EASTSIDE CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2018**

	State Allocation	Local Funding	Federal Funding	Totals
ASSETS				
Cash and pooled cash	\$ 105,158	\$ 1,774,751	-	\$ 1,879,909
Due from other governments	-	9,317	110,570	119,887
Prepaid expenses	-	60,000	-	60,000
TOTAL ASSETS	\$ 105,158	\$ 1,844,068	\$ 110,570	\$ 2,059,796
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 31,548	-	\$ 31,548
Accrued salaries and related costs	-	506,877	110,570	617,447
TOTAL LIABILITIES	-	538,425	110,570	648,995
FUND BALANCES:				
Nonspendable, prepaid items	-	60,000	-	60,000
Restricted for:				
Food service	-	6,442	-	6,442
E-Rate	-	3,849	-	3,849
Capital improvements	51,108	-	-	51,108
Unassigned	54,050	1,235,352	-	1,289,402
TOTAL FUND BALANCE	105,158	1,305,643	-	1,410,801
TOTAL LIABILITIES AND FUND BALANCES	\$ 105,158	\$ 1,844,068	\$ 110,570	\$ 2,059,796

**EASTSIDE CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

	State Allocation	Local Funding	Federal Funding	Totals
REVENUES				
Charges to school districts	\$ -	\$ 1,998,395	-	\$ 1,998,395
State aid	3,475,177	-	-	3,475,177
Federal aid	-	-	808,306	808,306
Earnings on cash and investments	-	9,109	-	9,109
School lunch services - grants	-	-	357,794	357,794
Miscellaneous	-	553,811	-	553,811
TOTAL REVENUES	3,475,177	2,561,315	1,166,100	7,202,592
EXPENDITURES				
Current:				
Instructional services	3,396,982	1,577,982	808,306	5,783,270
Operation and maintenance of facilities	52,009	417,043	-	469,052
Transportation	-	368,676	-	368,676
Food services	5,218	35,068	357,794	398,080
Capital outlays:				
Equipment	-	29,800	-	29,800
Building improvements	-	36,227	-	36,227
TOTAL EXPENDITURES	3,454,209	2,464,796	1,166,100	7,085,105
OTHER FINANCING SOURCES (USES)				
Transfers	(90,746)	90,746	-	-
NET CHANGE IN FUND BALANCES	(69,778)	187,265	-	117,487
FUND BALANCES, BEGINNING OF YEAR	174,936	1,118,378	-	1,293,314
FUND BALANCES, END OF YEAR	\$ 105,158	\$ 1,305,643	\$ -	\$ 1,410,801

**EASTSIDE CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018**

EXPENDITURES

Current:

Salaries	\$ 3,377,917
Employment costs	1,542,823
Food service	307,105
Transportation	368,676
Central office expenses	64,422
Educational services	242,541
Educational supplies	251,834
Professional services	39,630
Supplies and materials	55,378
Special programs	174,623
Summer programs	195,463
Repairs and maintenance	391,994
Equipment	30,440
Building improvement	<u>42,259</u>

TOTAL EXPENDITURES \$ 7,085,105

SINGLE AUDIT SUPPLEMENT

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

September 28, 2018

Board of Directors
EastSide Charter School
Wilmington, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the EastSide Charter School ("the School"), Wilmington, Delaware, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

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

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

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

Board of Directors
EastSide Charter School

Compliance and Other Matters

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

Purpose of This Report

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


BARBACANE, THORNTON & COMPANY LLP

INDEPENDENT AUDITOR'S
REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

September 28, 2018

Board of Directors
EastSide Charter School
Wilmington, Delaware

Report on Compliance for Each Major Federal Program

We have audited the EastSide Charter School's ("the School") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2018. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Board of Directors
EastSide Charter School

Opinion on the Major Federal Program

In our opinion, the EastSide Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


BARBACANE, THORNTON & COMPANY LLP

**EASTSIDE CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

FEDERAL GRANTOR PROJECT TITLE	Source Code	FEDERAL CFDA NUMBER	GRANT PERIOD BEGINNING/ ENDING DATES	GRANT AMOUNT	TOTAL RECEIVED FOR YEAR	ACCRUED (DEFERRED) REVENUE 06/30/17	REVENUE RECOGNIZED	CURRENT YEAR EXPENDITURES	ACCRUED (DEFERRED) REVENUE 06/30/18	PASSED THROUGH TO SUB-RECIPIENTS
U.S. Department of Agriculture Passed through DE Department of Education Fresh Fruit and Vegetable Program	I	10.582	07/01/17-06/30/18	N/A	\$ 21,125	\$ -	\$ 21,125	\$ 21,125	\$ -	\$ -
Child and Adult Care Food Program	I	10.555	07/01/17-06/30/18	N/A	336,669	-	336,669	336,669	-	-
Total U.S. Department of Agriculture					357,794	-	357,794	357,794	-	-
U.S. Department of Education Passed through DE Department of Education										
Title I - Grants to Local Education Agencies	I	84.010	07/01/16-11/30/18	309,656	30,839	-	30,839	30,839	-	-
Title I - Grants to Local Education Agencies	I	84.010	07/01/17-11/30/19	357,129	340,165	90,071	351,054	351,054	100,961	-
Total CFDA 84.010					371,004	90,071	381,894	381,894	100,961	-
I.D.E.A.	I	84.027	07/01/16-11/30/18	81,736	5,373	-	5,373	5,373	-	-
I.D.E.A.	I	84.027	07/01/17-11/30/19	83,623	74,031	9,076	74,564	74,564	9,609	-
Total CFDA 84.027					79,404	9,076	79,937	79,937	9,609	-
Special Education Preschool Grants	I	84.173	07/01/16-11/30/18	10,157	8,700	-	8,700	8,700	-	-
Special Education Preschool Grants	I	84.173	07/01/17-11/30/19	1,457	1,457	-	1,457	1,457	-	-
Total CFDA 84.173					10,157	-	10,157	10,157	-	-
Total Special Education Cluster					89,561	9,076	90,094	90,094	9,609	-
21 st Century Community Learning Centers	I	84.287	07/01/15-11/30/17	189,952	13,849	-	13,849	13,849	-	-
21 st Century Community Learning Centers	I	84.287	07/01/16-11/30/18	296,100	226,568	-	226,568	226,568	-	-
21 st Century Community Learning Centers	I	84.287	07/01/17-11/30/19	141,400	37,153	-	37,153	37,153	-	-
Total CFDA 84.287					277,570	-	277,570	277,570	-	-
Title II: Improving Teacher Quality State Grants	I	84.367	07/01/15-11/30/17	57,730	2,500	-	2,500	2,500	-	-
Title II: Improving Teacher Quality State Grants	I	84.367	07/01/16-11/30/18	57,309	234	-	234	234	-	-
Title II: Improving Teacher Quality State Grants	I	84.367	07/01/17-11/30/19	59,417	50,857	-	50,857	50,857	-	-
Total CFDA 84.367					53,591	-	53,591	53,591	-	-
Title IV	I	93.658	07/01/17-11/30/19	13,108	5,157	-	5,157	5,157	-	-
Total U.S. Department of Education					796,883	99,147	808,306	808,306	110,570	-
TOTAL FEDERAL AWARDS					\$ 1,154,677	\$ 99,147	\$ 1,166,100	\$ 1,166,100	\$ 110,570	\$ -

Source Code:
I - Indirect Funding

EASTSIDE CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A BASIS OF ACCOUNTING

The School uses the modified accrual method of recording transactions. Revenues are recorded when measurable and available. Expenditures are recorded when incurred.

NOTE B FEDERAL EXPENDITURES

The schedule of expenditures of federal awards reflects federal expenditures for all individual grants which were active during the fiscal year.

NOTE C INDIRECT COST RATE

The School has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. For the year ended June 30, 2018, there were no indirect costs included in the schedule of expenditures of federal awards.

**SCHEDULE OF
FINDINGS AND RECOMMENDATIONS**

EASTSIDE CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditor's report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]:

Unmodified

Any audit findings disclosed that are required to be reported in accordance under the Uniform Guidance?

Yes No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.287

21st Century Community Learning Centers

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

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

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

None.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.