



GATEWAY LAB SCHOOL
(A Component Unit of the State of Delaware)
WILMINGTON, DELAWARE

FINANCIAL STATEMENTS

JUNE 30, 2016

GATEWAY LAB SCHOOL
(A Component Unit of the State of Delaware)

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GATEWAY LAB SCHOOL
(A Component Unit of the State of Delaware)

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INDEPENDENT AUDITOR'S REPORT

September 27, 2016

Board of Directors
Gateway Lab School
Wilmington, Delaware

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Board of Directors
Gateway Lab School

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

Opinions

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

Report on Summarized Comparative Information

We have previously audited the Gateway Lab School's 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund in our report dated September 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, the budgetary comparison schedule on page 29, the schedule of the School's proportionate share of the net pension liability on page 30 and the schedule of School contributions on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.

Board of Directors
Gateway Lab School

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 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 - governmental funds 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 27, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**GATEWAY LAB SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2016**

The discussion and analysis of the financial performance of the Gateway Lab School (the "School") provides an overview of the School's financial activities for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

The School's net position reflects a balance of \$298,891. Program revenues accounted for \$300,333, or 6.2 percent, of total revenue, and general revenues accounted for \$4,523,497 or 93.8 percent.

The Governmental Funds reported ending fund balance in the amount of \$584,021.

USING THIS ANNUAL FINANCIAL REPORT

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

REPORTING GATEWAY LAB SCHOOL AS A WHOLE

Fiscal year 2016 is the School's sixth year of operations. One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net position and changes therein. The change in net position provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as educational related legislation, student enrollment growth, facility conditions, and other issues in arriving at a conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUND

Most of the School's activities are reported in the General Fund, which focuses on how money flows into and out of that fund and the year-end balance available for spending in future periods. This fund is reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The Governmental Funds statements provide a detailed short-term view of the School's general operations and the basic services it provides.

**GATEWAY LAB SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2016**

Governmental Funds information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs and/or operations. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the Governmental Funds is reconciled in the basic financial statements.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the School, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$298,891 at the close of the fiscal year. The School's unrestricted net position had a balance of \$56,800, and \$242,091 was invested in capital assets.

A comparative analysis of net position and changes in net position follows:

**Table 1
NET POSITION**

	Governmental Activities	
	2016	2015
ASSETS		
Current assets	\$ 1,063,148	\$ 907,947
Noncurrent assets	330,472	376,900
TOTAL ASSETS	<u>1,393,620</u>	<u>1,284,747</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows – pension	<u>343,812</u>	<u>316,307</u>
LIABILITIES		
Current liabilities	508,867	469,233
Noncurrent liabilities	723,249	377,178
TOTAL LIABILITIES	<u>1,232,116</u>	<u>846,411</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows – pension	<u>206,425</u>	<u>509,002</u>
NET POSITION		
Investment in capital assets	242,091	347,160
Restricted	-	217
Unrestricted (deficit)	56,800	(101,736)
TOTAL NET POSITION	<u>\$ 298,891</u>	<u>\$ 245,641</u>

**GATEWAY LAB SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2016**

**Table 2
CHANGES IN NET POSITION**

	Governmental Activities	
	2016	2015
REVENUES		
General revenue:		
Charges to school districts	\$ 1,495,752	\$ 1,297,427
Payments from primary government	3,019,032	2,421,403
Earnings on cash and investments	8,713	5,860
Program revenue:		
Charges for services	111,206	59,284
Operating grants and contributions	189,127	346,805
TOTAL REVENUES	4,823,830	4,130,779
EXPENSES		
Instructional services	3,883,180	3,483,001
Support services:		
Operation and maintenance of facilities	652,374	635,773
Transportation	159,587	156,978
Food service	75,439	46,808
TOTAL EXPENSES	4,770,580	4,322,560
CHANGE IN NET POSITION	\$ 53,250	\$ (191,781)

THE SCHOOL'S FUNDS

The School's Governmental Funds reported a fund balance of \$584,021, which is an increase from the prior year of \$115,667. This increase was realized primarily as a result of increases in charges to school districts and state aid, offset by increases in expenses due to rising personnel costs.

Governmental Funds

The tables that follow assist in illustrating the financial activities of the Governmental Funds.

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Total Governmental Funds	
	2016	2015
REVENUES		
Charges to school districts	\$ 1,495,752	\$ 1,297,427
State aid	2,960,391	2,601,396
Federal aid	184,162	163,129
Earnings on cash and investments	8,713	5,860
Food service revenue	82,488	24,164
Contributions	4,965	3,683
School programs	28,718	35,120
TOTAL REVENUES	4,765,189	4,130,779

**GATEWAY LAB SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2016**

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

(cont'd)	Total Governmental Funds	
	2016	2015
EXPENDITURES		
Current:		
Instructional services	3,838,167	3,552,743
Operation and maintenance of facilities	564,429	549,514
Transportation	159,587	156,978
Food service	74,099	46,361
Capital outlays:		
Property	7,915	6,958
Equipment	5,325	4,679
TOTAL EXPENDITURES	4,649,522	4,317,233
NET CHANGE IN FUND BALANCES	115,667	(186,454)
FUND BALANCES, BEGINNING OF YEAR	468,354	654,808
FUND BALANCES, END OF YEAR	\$ 584,021	\$ 468,354

The majority of the School's total revenue (93.5 percent) comes from state sources and local school districts. State and local revenue is contingent upon the School's total enrollment population and the students' residential districts. The socioeconomic diversity and special needs of the School's population dictate entitlement to federal funding, which accounts for (3.9 percent) of total revenue. Contributions, earnings on cash, program revenue, and students' lunch fees account for the remainder of total revenue. The reliance on this revenue is to support programs and facility expenditures that are not allotted for in federal, state, and local funds.

General Fund Budget Information

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

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

Revenues

State Aid – The favorable variance of \$67,367 is attributed to additional state funding received for teacher stipends not anticipated during the budget process.

**GATEWAY LAB SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Aid – The unfavorable variance of \$67,967 is attributed to timing differences. Federal grants were budgeted at the authorized amount, which is less than the reimbursed expended amount. The balance of the expended authorized amount will carry over into fiscal year 2017.

Earnings on Cash and Investments – The favorable variance of \$8,713 is due to interest earned on local funds, which is not budgeted.

Food Service Revenue – The unfavorable variance of \$14,233 is due to participation in the School's lunch program being lower than expected.

School Programs – The unfavorable variance of \$24,110 is due to School and student activities decreasing from the prior year, and from the expected amount.

Expenditures

Salaries and Employment Costs – The favorable combined variance of \$86,401 is due to a health insurance savings realized from the delay in the benefit start period for new hires, turnover of existing staff, and vacant positions filled with substitutes who are not eligible to participate in the State's benefit plan.

Travel – The unfavorable variance of \$7,634 is due to higher than anticipated travel costs resulting from an increased number of conferences and meetings held in Dover, Delaware.

Contractual Services – The unfavorable variance of \$46,008 is due to legal settlement fees being greater than anticipated for special education services.

Transportation - Buses – The favorable variance of \$13,003 is due to the School's overall management of its costs, and due to travel expenses for extracurricular activities being less than anticipated.

Repairs and Maintenance – The favorable variance of \$23,665 is due to the School's conservative budgeting for repairs and maintenance costs, and actual repairs needed being much less than anticipated during the year.

Supplies and Materials – The unfavorable variance of \$11,334 is due to the School purchasing additional supplies during the year that were not originally anticipated.

Capital Outlay – The unfavorable variance of \$3,177 is due to additional leasehold improvements being made during the year that were not originally budgeted.

Capital Assets

The School has \$242,091 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. The increase in accumulated depreciation was \$118,309. Detailed information regarding capital assets activity is included in the notes to the basic financial statements.

**GATEWAY LAB SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2016**

Long-Term Debt

The School does not have any debt as of June 30, 2016.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

The School has identified a continued need to provide students with additional support services and educational programs. Many of these programs will require additional resources not adequately funded with federal, state, or local district revenue. Also, potential cutbacks in educational spending at the federal, state, and local level could impact the School's financial resources to meet the State's accountability requirements. In anticipation of these events, the School is taking steps to increase the percentage of funding from nongovernmental resources. In December 2014, the School's charter was renewed for another five years contingent upon the School meeting the annual academic framework benchmarks. The School is being monitored by the Department of Education to review the School's progress in meeting the academic benchmarks. In the event that the School does not meet the framework benchmarks, the School runs the risk of having its charter revoked. The School exceeded the framework benchmarks for the year ended June 30, 2016, and management believes that it will continue to meet or exceed the framework benchmarks going forward.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, investors, and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School's Executive Director at 302-633-4091.

BASIC FINANCIAL STATEMENTS

**GATEWAY LAB SCHOOL
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and pooled cash	\$ 1,027,617	\$ 871,343
Grants receivable	-	973
Prepaid rent	35,531	35,531
Total Current Assets	<u>1,063,148</u>	<u>907,847</u>
NONCURRENT ASSETS:		
Security deposit	29,740	29,740
Due from State of Delaware	58,641	-
Depreciable capital assets, net	242,091	347,160
Total Noncurrent Assets	<u>330,472</u>	<u>376,900</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions	167,387	168,923
Deferred outflows - pension	176,425	147,384
Total Deferred Outflows of Resources	<u>343,812</u>	<u>316,307</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u><u>\$ 1,737,432</u></u>	 <u><u>\$ 1,601,054</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 84,557	\$ 63,948
Accrued salaries and related costs	424,310	405,285
Total Current Liabilities	<u>508,867</u>	<u>469,233</u>
NONCURRENT LIABILITIES:		
Compensated absences	94,263	56,886
Net pension liability	628,986	320,292
Total Liabilities	<u>1,232,116</u>	<u>846,411</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred pension	<u>206,425</u>	<u>509,002</u>
 NET POSITION:		
Net investment in capital assets	242,091	347,160
Restricted	-	217
Unrestricted (Deficit)	56,800	(101,736)
Total Net Position	<u>298,891</u>	<u>245,641</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	 <u><u>\$ 1,737,432</u></u>	 <u><u>\$ 1,601,054</u></u>

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

GATEWAY LAB SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Data for the Year Ended June 30, 2015)

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
				2016
				2015
GOVERNMENTAL ACTIVITIES				
Instructional services	\$ (3,883,180)	\$ 128,579	\$ -	\$ (3,725,883)
Support services:				
Operation and maintenance of facilities	(652,374)	-	-	(652,374)
Transportation	(159,587)	-	-	(159,587)
Food service	(75,439)	60,548	-	67,597
TOTAL GOVERNMENTAL ACTIVITIES	\$ (4,770,580)	\$ 189,127	\$ -	(4,470,247)
GENERAL REVENUES				
Charges to school districts				1,297,427
Payments from primary government				2,421,403
Earnings on cash and investments				8,713
TOTAL GENERAL REVENUES				4,523,497
CHANGE IN NET POSITION				53,250
NET POSITION, BEGINNING OF YEAR				437,422
NET POSITION, END OF YEAR	\$ 298,891			\$ 245,641

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

**GATEWAY LAB SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016**

(With Summarized Comparative Totals for June 30, 2015)

	General Fund	Capital Projects Fund	Total	
	2016	2015	2016	2015
ASSETS				
Cash and pooled cash	\$ 1,027,617	\$ -	\$ 1,027,617	\$ 871,343
Grants receivable	-	-	-	973
Prepaid rent	35,531	-	35,531	35,531
Security deposit	29,740	-	29,740	29,740
TOTAL ASSETS	<u>\$ 1,092,888</u>	<u>\$ -</u>	<u>\$ 1,092,888</u>	<u>\$ 937,587</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 84,557	-	\$ 84,557	\$ 63,948
Accrued salaries and related costs	424,310	-	424,310	405,285
TOTAL LIABILITIES	<u>508,867</u>	<u>-</u>	<u>508,867</u>	<u>469,233</u>
FUND BALANCES:				
Nonspendable	65,271	-	65,271	65,271
Restricted	-	-	-	217
Unassigned	518,750	-	518,750	402,866
TOTAL FUND BALANCES	<u>584,021</u>	<u>-</u>	<u>584,021</u>	<u>468,354</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,092,888</u>	<u>\$ -</u>	<u>\$ 1,092,888</u>	<u>\$ 937,587</u>

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

**GATEWAY LAB SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2016**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 584,021
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
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.		242,091
Long-term assets applicable to governmental activities are not due and receivable in the current period and, therefore, are not reported as fund assets.		
Due from State of Delaware		58,641
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:</p>		
Compensated absences	\$ (94,263)	
Net pension liability	<u>(628,986)</u>	(723,249)
<p>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.</p>		
Deferred outflows - pension contributions	167,387	
Deferred outflows - pension	176,425	
Deferred inflows - pension	<u>(206,425)</u>	<u>137,387</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ 298,891</u>

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

GATEWAY LAB SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Totals for the Year Ended June 30, 2015)

	General Fund	Capital Projects Fund	Total
	2016	2016	2015
REVENUES			
Charges to school districts	\$ 1,495,752	-	\$ 1,297,427
State aid	2,960,391	-	2,601,396
Federal aid	184,162	-	163,129
Earnings on cash and investments	8,713	-	5,860
Food service revenue	82,488	-	24,164
Contributions	4,965	-	3,683
School programs	28,718	-	35,120
TOTAL REVENUES	<u>4,765,189</u>	<u>-</u>	<u>4,130,779</u>
EXPENDITURES			
Current:			
Instruction	3,838,167	-	3,552,743
Operation and maintenance of facilities	564,429	-	549,514
Transportation	159,587	-	156,978
Food service	74,099	-	46,361
Capital outlays:			
Property	7,915	-	6,958
Equipment	5,325	-	4,679
TOTAL EXPENDITURES	<u>4,649,522</u>	<u>-</u>	<u>4,317,233</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	115,667	-	(186,454)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	217	(217)	-
NET CHANGE IN FUND BALANCES	115,884	(217)	(186,454)
FUND BALANCES, BEGINNING OF YEAR	468,137	217	654,808
FUND BALANCES, END OF YEAR	<u>\$ 584,021</u>	<u>-</u>	<u>\$ 468,354</u>

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

**GATEWAY LAB SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 115,667

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 \$1,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$	13,240	
Depreciation expense		<u>(118,309)</u>	(105,069)

Some revenues reported in the statement of activities are not available to finance current expenditures and, therefore, are not reported as revenues in the governmental funds. 58,641

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences	(37,377)
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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. 21,388

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 53,250

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

GATEWAY LAB SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

The Gateway Lab School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. The Gateway Lab School's initial charter was granted for a four-year period, renewable every five years thereafter. The Gateway Lab School's first full year of school started September 1, 2011. The initial charter expired on June 30, 2015 and was renewed for a period of five years with conditions that the School meet the requirements of the Delaware Department of Education Academic Framework.

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

The financial statements of the Gateway Lab 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 Gateway Lab School ("the School") are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Entity-wide and Fund Financial Statements

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

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

GATEWAY LAB SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Amounts reported as program revenues include 1) charges to students for special fees, supplies, food, or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

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

Charges to the school districts, state appropriations, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental funds:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- **Capital Projects Fund.** The capital projects fund accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodeling of facilities, and procurement of equipment necessary for providing educational programs for all students within the School.

GATEWAY LAB SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2016, the School had \$0 due to/from other funds.

Capital Assets

Capital assets, which include leasehold improvements, are reported in the entity-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is capitalized.

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

Leasehold improvements (life of lease)	4 - 7 years
Equipment	3 - 7 years

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the entity-wide financial statements. The liability for these amounts is reported in the governmental funds only when the liability matures; for example, as a result of employee resignations and retirements.

Vacation – Twelve-month employees can accumulate up to 30 days of vacation. Any days in excess of 30 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination and retirement at the current rate of pay.

Sick Leave – Sick leave allowances are as follows: teachers shall be allowed 10 days of sick leave per year, and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit up to a maximum of 90 days. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

GATEWAY LAB SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

The compensated absences liability was \$94,263 at June 30, 2016, of which \$58,641 was reimbursable by the State of Delaware.

Fund Equity

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

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

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

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 School Director 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 has provided otherwise in its commitment or assignment actions.

Net Position

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

GATEWAY LAB SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

Deferred Inflows/Outflows of Resources

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

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents a source of net position that applies to future periods. The School reports certain items which represent differences related to changes in the net pension liability which will be amortized over future periods.

Use of Estimates in the Preparation of Financial Statements

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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.

NOTE 2 CASH AND POOLED CASH

At June 30, 2016, the School had a cash equivalent balance of \$1,027,617, the entirety of which 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

GATEWAY LAB SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND POOLED CASH (cont'd)

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.

NOTE 3 CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
General capital assets being depreciated:				
Equipment	\$ 100,377	\$ 5,325	\$ -	\$ 105,702
Leasehold improvements	<u>506,992</u>	<u>7,915</u>	<u>-</u>	<u>514,907</u>
 Total general capital assets being depreciated	 607,369	 13,240	 -	 620,609
Accumulated depreciation	<u>260,209</u>	<u>118,309</u>	<u>-</u>	<u>378,518</u>
 Total general capital assets being depreciated, net	 <u>347,160</u>	 <u>(105,069)</u>	 <u>-</u>	 <u>242,091</u>
 Governmental Activities, Net	 <u>\$ 347,160</u>	 <u>\$ (105,069)</u>	 <u>\$ -</u>	 <u>\$ 242,091</u>

Depreciation expense was charged to the following governmental activities:

Instructional services	\$ 29,024
Food service	1,340
Operation and maintenance of facilities	<u>87,945</u>
	<u>\$ 118,309</u>

NOTE 4 LONG-TERM LIABILITIES

A schedule of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	<u>Amounts Outstanding 07/01/2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Amounts Outstanding 06/30/2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 56,886	\$ 37,377	\$ -	\$ 94,263	\$ -
Total Governmental Activities	<u>\$ 56,886</u>	<u>\$ 37,377</u>	<u>\$ -</u>	<u>\$ 94,263</u>	<u>\$ -</u>

GATEWAY LAB SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN

Plan Description

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

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

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

Plan Description and Eligibility

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

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

Benefits Provided

Service Benefits

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

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.

GATEWAY LAB SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Retirement

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

Disability Benefits

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

Survivor and Burial Benefits

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

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

Contributions

Member Contributions

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

Employer Contributions

Employer contributions are determined by the Board. For the year ended June 30, 2016, the rate of the employer contribution was 9.58 percent of covered payroll. The School's contribution to PERS for the year ended June 30, 2016, was \$167,387.

GATEWAY LAB SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

PRI Contribution

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

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

At June 30, 2016, the School reported a liability of \$628,986 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the net pension liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2015, the School's proportion was 0.0945 percent, which was an increase of 0.0075 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized a pension expense in the amount of \$145,999. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 192,316
Difference between actual and expected experience	-	14,109
Changes in proportions	176,425	-
Contributions subsequent to the date of measurement	<u>167,387</u>	<u>-</u>
	<u>\$ 343,812</u>	<u>\$ 206,425</u>

An amount of \$167,387 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2015 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions and will be recognized in pension expense as follows:

GATEWAY LAB SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Year Ending June 30,

2016	\$ (15,616)
2017	(15,616)
2018	(15,616)
2019	(15,616)
2020	<u>32,464</u>
	<u><u>\$ (30,000)</u></u>

Actuarial Assumptions

The total pension liability as of the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2015. These actuarial valuations used the following actuarial assumptions, applied to all periods:

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

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

Mortality rates were based on the Sex Distinct RP-2000 Combined Mortality Table projected to 2016 using scale AA for Males or Females, as appropriate, for mortality improvement.

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

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

GATEWAY LAB SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

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

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

Discount Rate

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

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

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

	<u>1% Decrease 6.2%</u>	<u>Current Rate Discount Rate 7.2%</u>	<u>1% Increase 8.2%</u>
School's proportionate share of the net pension liability (asset)	\$ 1,421,086	\$ 628,986	\$ (299,414)

GATEWAY LAB SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 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 6 LEASING ARRANGEMENTS

Operating Lease

The School leases its space located in Wilmington, Delaware from the St. Catherine of Siena Roman Catholic Church. The lease commenced on April 6, 2011 and expires on June 30, 2019.

At June 30, 2016, the minimum future rental payments under non-cancelable leasing arrangements for the remaining years and in the aggregate are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 443,600
2018	452,473
2019	<u>461,522</u>
Minimum future rental payments required	<u>\$ 1,357,595</u>

Total rent expense for the year ended June 30, 2016 was \$434,903.

NOTE 7 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 expenditures of the School. Insurance settlements have not exceeded insurance coverage in any of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE 8 COMMITMENTS AND CONTINGENCIES

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

GATEWAY LAB SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 8 COMMITMENTS AND CONTINGENCIES (cont'd)

Grants

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

NOTE 9 FUND BALANCES

As of June 30, 2016, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Total Governmental Funds
Nonspendable:			
Prepaid rent	\$ 35,531	\$ -	\$ 35,531
Security deposit	29,740	-	29,740
Unassigned	518,750	-	518,750
Total Fund Balances	\$ 584,021	\$ -	\$ 584,021

NOTE 10 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary allocations in the following categories:

Travel	\$ 7,634
Contractual services	\$ 46,008
Facility costs	\$ 724
Supplies and materials	\$ 11,334
Capital outlay - property	\$ 7,915

The excess expenditures were covered by amounts under budget in other areas.

NOTE 11 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 27, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**GATEWAY LAB SCHOOL
BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 1,539,014	\$ 1,495,752	\$ 1,495,752	\$ -
State aid	2,893,024	2,893,024	2,960,391	67,367
Federal aid	312,677	312,677	244,710	(67,967)
Earnings on cash and investments	-	-	8,713	8,713
Food service revenue	36,173	36,173	21,940	(14,233)
Contributions	11,389	11,389	4,965	(6,424)
School programs	52,828	52,828	28,718	(24,110)
TOTAL REVENUES	<u>4,845,105</u>	<u>4,801,843</u>	<u>4,765,189</u>	<u>(36,654)</u>
EXPENDITURES				
Current:				
Salaries	1,666,834	1,882,879	1,845,577	37,302
Employment costs	761,967	966,463	917,364	49,099
Travel	4,000	10,300	17,934	(7,634)
Contractual services	773,882	995,319	1,041,327	(46,008)
Communications	2,532	8,636	7,180	1,456
Public utilities service	39,000	42,644	38,601	4,043
Insurance	11,300	13,529	13,529	-
Facility costs	434,903	434,903	435,627	(724)
Transportation - buses	154,730	172,590	159,587	13,003
Repairs and maintenance	64,083	89,327	65,662	23,665
Supplies and materials	52,523	82,560	93,894	(11,334)
Capital outlays:				
Property	-	-	7,915	(7,915)
Equipment	10,000	10,063	5,325	4,738
TOTAL EXPENDITURES	<u>3,975,754</u>	<u>4,709,213</u>	<u>4,649,522</u>	<u>59,691</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>869,351</u>	<u>92,630</u>	<u>115,667</u>	<u>23,037</u>
OTHER FINANCING SOURCES (USES):				
Contingency	(76,198)	(88,641)	-	88,641
TOTAL OTHER FINANCING SOURCES (USES)	<u>(76,198)</u>	<u>(88,641)</u>	<u>-</u>	<u>88,641</u>
NET CHANGE IN FUND BALANCE	793,153	3,989	115,667	111,678
FUND BALANCE, BEGINNING OF YEAR	<u>468,354</u>	<u>468,354</u>	<u>468,354</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,261,507</u>	<u>\$ 472,343</u>	<u>\$ 584,021</u>	<u>\$ 111,678</u>

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

**GATEWAY LAB SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>MEASUREMENT DATE</u>	
	<u>JUNE 30, 2015</u>	<u>JUNE 30, 2014</u>
School's proportion of the net pension liability	0.0945%	0.087%
School's proportion of the net pension liability - dollar value	\$ 628,986	\$ 320,292
School's covered employee payroll	\$ 1,763,274	\$ 1,591,056
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	35.67%	20.13%
Plan fiduciary net position as a percentage of the total pension liability	92.67%	95.80%

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

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

**GATEWAY LAB SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL CONTRIBUTIONS**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 167,387	\$ 168,569
Contributions in relation to the contractually required contribution	<u>167,387</u>	<u>168,569</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 1,747,255	\$ 1,763,274
Contributions as a percentage of covered-employee payroll	9.58%	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.

SUPPLEMENTARY INFORMATION

**GATEWAY LAB SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2016**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Total</u>
ASSETS				
Cash and pooled cash	\$ -	\$1,027,617	\$ -	\$1,027,617
Prepaid rent	-	35,531	-	35,531
Security deposit	-	29,740	-	29,740
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>\$ -</u></u>	<u><u>\$1,092,888</u></u>	<u><u>\$ -</u></u>	<u><u>\$1,092,888</u></u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 84,557	\$ -	\$ 84,557
Accrued salaries and related costs	-	424,310	-	424,310
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u><u>-</u></u>	<u><u>508,867</u></u>	<u><u>-</u></u>	<u><u>508,867</u></u>
FUND BALANCES:				
Nonspendable	-	65,271	-	65,271
Unassigned	-	518,750	-	518,750
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u><u>-</u></u>	<u><u>584,021</u></u>	<u><u>-</u></u>	<u><u>584,021</u></u>
TOTAL LIABILITIES AND FUND BALANCES				
	<u><u>\$ -</u></u>	<u><u>\$1,092,888</u></u>	<u><u>\$ -</u></u>	<u><u>\$1,092,888</u></u>

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

	General Fund			Total
	State Allocation	Local Funding	Federal Funding	
REVENUES				
Charges to school districts	\$ -	\$ 1,495,752	\$ -	\$ 1,495,752
State aid	2,960,391	-	-	2,960,391
Federal aid	-	-	184,162	184,162
Earnings on cash and investments	-	8,713	-	8,713
Food service revenue	-	21,940	60,548	82,488
Contributions	-	4,965	-	4,965
School programs	-	28,718	-	28,718
TOTAL REVENUES	<u>2,960,391</u>	<u>1,560,088</u>	<u>244,710</u>	<u>4,765,189</u>
EXPENDITURES				
Current:				
Instruction	2,369,532	1,286,785	181,850	3,838,167
Operation and maintenance of facilities	470,389	94,040	-	564,429
Transportation	109,542	50,045	-	159,587
Food services	-	13,551	60,548	74,099
Capital outlays:				
Property	7,915	-	-	7,915
Equipment	3,013	-	2,312	5,325
TOTAL EXPENDITURES	<u>2,960,391</u>	<u>1,444,421</u>	<u>244,710</u>	<u>4,649,522</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	115,667	-	115,667
OTHER FINANCING SOURCES				
Transfers in	-	217	-	217
NET CHANGE IN FUND BALANCES	-	115,884	-	115,884
FUND BALANCES, BEGINNING OF YEAR	<u>-</u>	<u>468,137</u>	<u>-</u>	<u>468,137</u>
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ 584,021</u>	<u>\$ -</u>	<u>\$ 584,021</u>

**GATEWAY LAB SCHOOL
 SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016**

EXPENDITURES

Current:

Salaries	\$ 1,845,577
Employment costs	917,364
Travel	17,934
Contractual services	1,041,327
Communications	7,180
Public utilities service	38,601
Insurance	13,529
Facility costs	435,627
Transportation - buses	159,587
Repairs and maintenance	65,662
Supplies and materials	93,894

Capital outlays:

Property	7,915
Equipment	<u>5,325</u>

TOTAL EXPENDITURES

\$ 4,649,522

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 27, 2016

Board of Directors
Gateway Lab 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Gateway Lab School, Wilmington, Delaware, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Gateway Lab School ("the School"), and have issued our report thereon dated September 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the auditing 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
Gateway Lab School

Compliance and Other Matters

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

Purpose of this Report

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

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP