

Single Audit Report

THOMAS A. EDISON CHARTER SCHOOL
[A Component Unit of the State of Delaware]
Wilmington, Delaware

Years Ended June 30, 2014 and 2013



HAGGERTY & HAGGERTY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

THOMAS A. EDISON CHARTER SCHOOL
[A Component Unit of the State of Delaware]

Table of Contents

Report of Independent Auditor.....1-2

Basic Financial Statements Section

Government-Wide Financial Statements:
Statements of Net Position.....3
Statements of Activities.....4-5
Fund Financial Statements:
Balance Sheets-Governmental Funds.....6
Reconciliation of the Balance Sheets
of Governmental Funds to the Statements of Net Position.....7
Statements of Revenues, Expenditures
and Change in Fund Balances-Governmental Funds.....8
Reconciliation of the Statements of Revenues, Expenditures and Change
in Fund Balances of Governmental Funds to the Statements of Activities...9
Statements of Fiduciary Net Position-Agency Fund.....10
Notes to Financial Statements.....11-20

Required Supplemental Information [RSI] Section

Schedule of Revenues, Expenditures and
Change in Fund Balance-Budget and Actual-General Fund.....21

Supplementary Information Section

Balance Sheets-General Fund.....22
Statements of Revenues, Expenditures
and Change in Fund Balances-General Fund.....23

Reports Required by OMB Circular A-133

Report of Independent Auditor
on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards*.....24-25
Report of Independent Auditor
on Compliance for Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133.....26-27
Schedule of Expenditures of Federal Awards and Related Disclosures.....28
Schedule of Findings and Questioned Costs.....29-30
Schedule of Prior Year Findings and Questioned Costs.....31-32



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Report of Independent Auditor

To Members of the School Board
Thomas A. Edison Charter School
Wilmington, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Thomas A. Edison Charter School ["the School"], Wilmington, Delaware [a component unit of the State of Delaware] as of and for the years ended June 30, 2014 and 2013, 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, the implementation, and the 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.

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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Thomas A. Edison Charter School, as of June 30, 2014 and 2013, and the respective changes in financial position for the years then ended in accordance accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require budgetary comparison information reflected on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the management's discussion and analysis section that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Thomas A. Edison Charter School's financial statements. The supplementary information reflected on pages 22 and 23 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information reflected on pages 22 and 23 is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014 on our consideration of Thomas A. Edison Charter 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering Thomas A. Edison Charter School's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of management, the Finance Committee, School Board, others within the School, Delaware Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a public record and its distribution is not limited.

Haggerty & Haggerty, P.A.
Certified Public Accountants

October 15, 2014
Wilmington, Delaware

Basic Financial Statements Section

THOMAS A. EDISON CHARTER SCHOOL
STATEMENTS OF NET POSITION
As of June 30, 2014 and 2013

	2014		2013	
	Primary Government Governmental Activities	Component Unit Foundation	Primary Government Governmental Activities	Component Unit Foundation [Restated]
ASSETS				
Current assets:				
Cash and equivalents	\$ 2,431,881	\$ 195,146	\$ 1,843,035	\$ 55,813
Receivables, net of allowance:				
Food service customers	...	...	168	...
Other	767	...	418	...
Due from other governments	42,779	4,993	25,566	6,419
Restricted assets-replacement reserve:				
Cash and equivalents	...	21,197	...	21,134
Prepayments and other assets	2,106	...	24,410	...
Due from component unit	15,924	...	11,960	...
Total current assets	2,493,457	221,336	1,905,557	83,366
Noncurrent assets:				
Capital assets, net of depreciation:				
Nondepreciable	...	...	...	...
Depreciable	1,073,660	4,816,270	1,182,310	5,008,590
Mortgage financing costs, net	...	34,734	...	40,148
Total noncurrent assets	1,073,660	4,851,004	1,182,310	5,048,738
TOTAL ASSETS	3,567,117	5,072,340	3,087,867	5,132,104
LIABILITIES				
Current liabilities:				
Accounts payable	125,936	6,620	142,274	3,942
Accrued salaries and related costs	228,807	...	182,206	...
Due to primary government	...	15,924	...	11,960
Mortgage note payable, current portion	...	185,678	...	172,354
Total current liabilities	354,743	208,222	324,480	188,256
Noncurrent liabilities:				
Mortgage note payable, net of current	...	1,333,939	...	1,519,617
Compensated absences liability, long-term portion	111,172	...	83,176	...
Total noncurrent liabilities	111,172	1,333,939	83,176	1,519,617
TOTAL LIABILITIES	465,915	1,542,161	407,656	1,707,873
NET POSITION				
Net investment in capital assets	1,073,660	3,331,387	1,182,310	3,356,767
Restricted-specific programs	...	...	106,024	...
Unrestricted	2,027,542	198,792	1,391,877	67,464
TOTAL NET POSITION	\$ 3,101,202	\$ 3,530,179	\$ 2,680,211	\$ 3,424,231

The accompanying notes are an integral part of the basic financial statements

THOMAS A. EDISON CHARTER SCHOOL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

Functions	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Position	
		Charges for Services	Grants and Contributions Operating	Capital	Governmental Activities Primary Government	Component Unit
GOVERNMENTAL ACTIVITIES						
Instructional services	\$ 6,583,215	\$ 21,292	\$ 1,943,916	\$...	\$(4,618,007)	\$...
Supporting services:						
Operation and maintenance of facilities	1,093,908	...	...	...	(1,093,908)	...
Transportation	509,084	...	423,723	...	(85,361)	...
Food services	556,786	...	526,463	...	(30,323)	...
Depreciation-unallocated	219,670	...	...	...	(219,670)	...
TOTAL PRIMARY GOVERNMENT	8,962,663	21,292	2,894,102	...	(6,047,269)	...
DISCRETELY PRESENTED COMPONENT UNIT:						
Foundation	347,288	292,922	10,250	...	...	(44,116)
TOTAL PRIMARY GOVERNMENT AND COMPONENT UNIT	\$ 9,309,951	\$ 314,214	\$ 2,904,352	\$...	(6,047,269)	(44,116)
GENERAL REVENUES AND TRANSFERS						
					2,715,165	...
Charges to school districts					3,859,016	...
State funding not restricted to specific purposes					10,440	64
Earnings on cash and equivalents					33,639	...
Miscellaneous revenues					(150,000)	150,000
Appropriations to component unit					6,468,260	150,064
Total general revenues and transfers						
CHANGES IN NET POSITION					420,991	105,948
NET POSITION						
Beginning of year					2,680,211	3,424,231
End of year					\$ 3,101,202	\$ 3,530,179

The accompanying notes are an integral part of the basic financial statements

THOMAS A. EDISON CHARTER SCHOOL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Position	
		Charges for Services	Grants and Contributions Operating	Capital	Primary Government	Component Unit
					[Restated]	[Restated]
GOVERNMENTAL ACTIVITIES						
Instructional services	\$ 6,130,974	\$ 15,205	\$ 1,412,477	\$...	\$ (4,703,292)	\$...
Supporting services:						
Operation and maintenance of facilities	1,099,758	...	...	...	(1,099,758)	...
Transportation	584,712	...	499,813	...	(84,899)	...
Food services	566,375	343	520,592	...	(45,440)	...
Depreciation-unallocated	230,874	...	...	...	(230,874)	...
TOTAL PRIMARY GOVERNMENT	8,612,693	15,548	2,432,882	...	(6,164,263)	...
DISCRETELY PRESENTED COMPONENT UNIT:						
Foundation	341,972	292,922	600	...	...	(48,450)
TOTAL PRIMARY GOVERNMENT AND COMPONENT UNIT	\$ 8,954,665	\$ 308,470	\$ 2,433,482	\$...	(6,164,263)	(48,450)
GENERAL REVENUES AND TRANSFERS						
Charges to school districts					2,768,268	...
State funding not restricted to specific purposes					3,810,063	...
Earnings on cash and equivalents					10,705	62
Miscellaneous revenues					19,455	...
Appropriations to component unit					(50,000)	50,000
Total general revenues and transfers					6,558,491	50,062
CHANGES IN NET POSITION					394,228	1,612
NET POSITION						
Beginning of year, as previously reported					2,228,032	3,422,619
Adjustment to opening net position [Note 11]					57,951	...
Beginning of year, as restated					2,285,983	3,422,619
End of year					\$ 2,680,211	\$ 3,424,231

The accompanying notes are an integral part of the basic financial statements

THOMAS A. EDISON CHARTER SCHOOL
 BALANCE SHEETS-GOVERNMENTAL FUNDS
 As of June 30, 2014 and 2013

	Governmental Funds	
	2014	2013
ASSETS		
Cash and equivalents	\$ 2,431,881	\$ 1,843,035
Accounts receivable:		
Food service customers	...	168
Other	767	418
Due from other governments	42,779	25,566
Due from component unit	15,924	11,960
Prepayments and other assets	<u>2,106</u>	<u>24,410</u>
TOTAL ASSETS	<u>\$ 2,493,457</u>	<u>\$ 1,905,557</u>
LIABILITIES		
Accounts payable	\$ 125,936	\$ 142,274
Accrued salaries and related costs	228,807	182,206
Due to other governments	...	...
Total liabilities	<u>354,743</u>	<u>324,480</u>
FUND BALANCES		
Nonspendable-prepayments and other assets	2,106	24,410
Restricted-specific programs	107,014	106,024
Committed-encumbered	92,398	241,501
Unassigned	<u>1,937,196</u>	<u>1,209,142</u>
Total fund balances	<u>2,138,714</u>	<u>1,581,077</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,493,457</u>	<u>\$ 1,905,557</u>

The accompanying notes are an integral part of the basic financial statements

THOMAS A. EDISON CHARTER SCHOOL
 RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS
 TO THE STATEMENTS OF NET POSITION
 As of June 30, 2014 and 2013

	<u>Governmental Funds</u>	
	<u>2014</u>	<u>2013</u>
Amounts reported for governmental activities in the statement of net position are different because:		
Total fund balances-governmental funds	\$ 2,138,714	\$ 1,581,077
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements. At June 30, 2014 and 2013, the total cost of capital assets is \$1,945,336 and \$1,834,316, and the related accumulated depreciation is \$871,676 and \$652,006, respectively.	1,073,660	1,182,310
Compensated absences are not due and payable for the period reported, and are therefore not reported in the fund financial statements.	<u>(111,172)</u>	<u>(83,176)</u>
Total net position-governmental activities	<u>\$ 3,101,202</u>	<u>\$ 2,680,211</u>

The accompanying notes are an integral part of the basic financial statements

THOMAS A. EDISON CHARTER SCHOOLSTATEMENTS OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GOVERNMENTAL FUNDS
Years Ended June 30, 2014 and 2013

	Governmental Funds	
	2014	2013 [Restated]
REVENUES		
Charges to school districts	\$ 2,715,165	\$ 2,768,268
State funding	4,609,268	4,403,777
Federal funding	2,143,850	1,839,168
Earnings on cash and equivalents	10,440	10,705
Food services fees	...	343
Program services fees	21,292	15,205
Miscellaneous revenues	33,639	19,455
Total revenues	<u>9,533,654</u>	<u>9,056,921</u>
EXPENDITURES		
Current:		
Instructional services	6,543,376	6,151,135
Supporting services:		
Operation and maintenance of facilities	1,093,908	1,099,758
Transportation	509,084	584,712
Food services	556,786	566,375
Capital outlay	122,863	197,029
Total expenditures	<u>8,826,017</u>	<u>8,599,009</u>
EXCESS REVENUES OVER EXPENDITURES	<u>707,637</u>	<u>457,912</u>
OTHER FINANCING SOURCES (USES)		
Refund of prior years expenditures-federal	...	17,752
Refund of prior years expenditures-local	...	55,846
Refund of prior years revenues	...	(15,647)
Appropriations to component unit	(150,000)	(50,000)
Total other financing sources (uses)	<u>(150,000)</u>	<u>7,951</u>
NET CHANGE IN FUND BALANCES	557,637	465,863
FUND BALANCES		
Beginning of year	<u>1,581,077</u>	<u>1,115,214</u>
End of year	<u>\$ 2,138,714</u>	<u>\$ 1,581,077</u>

The accompanying notes are an integral part of the basic financial statements

THOMAS A. EDISON CHARTER SCHOOL

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND

CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES

Years Ended June 30, 2014 and 2013

	<u>Governmental Funds</u>		
	<u>2014</u>	<u>2013</u>	[Restated]
Amounts reported for governmental activities in the statement of activities are different because:			
Net change in fund balances-total governmental funds	\$ 557,637	\$ 465,863	
<p>In the governmental funds capital outlay is reported as expenditures. However, in the statement of activities, assets with an initial, individual cost of \$5,000 or more are capitalized and the cost is allocated over the estimated useful lives of the capital assets and reported as depreciation expense. The following table reflects the amount by which depreciation either exceeds or is less than capital outlay for the period presented.</p>			
<u>Description</u>	<u>2014</u>	<u>2013</u>	
Capital outlay	\$ 111,020	\$ 300,366	
Depreciation expense	<u>(219,670)</u>	<u>(230,874)</u>	(108,650) 69,492
<p>In the statement of activities, certain operating expenses such as compensated absences [vacation] are measured by the amounts earned during the period. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used [essentially, amounts actually paid]. The compensated absences liability increased by \$27,996 and \$83,176 for the periods presented.</p>			
			(27,996) (83,176)
<p>The fund financial statements present prior period adjustments as other financing sources (uses); however, the government-wide financial statements presentation requires adjustment to the net position balance of the period affected.</p>			
		<u>...</u>	<u>(57,951)</u>
Change in net position-governmental activities	\$ 420,991	\$ 394,228	

The accompanying notes are an integral part of the basic financial statements

THOMAS A. EDISON CHARTER SCHOOL
STATEMENTS OF FIDUCIARY NET POSITION-AGENCY FUND
As of June 30, 2014 and 2013

	<u>Student Activities Fund</u>	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and equivalents	\$ <u>18,168</u>	\$ <u>19,707</u>
LIABILITIES		
Due to student groups	\$ 18,168	\$ 19,707
Due to other groups	<u> ...</u>	<u> ...</u>
TOTAL LIABILITIES	\$ <u>18,168</u>	\$ <u>19,707</u>

The accompanying notes are an integral
part of the basic financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Thomas A. Edison Charter School, Wilmington, Delaware [the "School"] have been prepared in conformity with U.S. 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 significant accounting policies of the School are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has one component unit which it has included in the reporting entity because of the significance of its operational and financial relationship to the School.

Discretely Presented Component Unit

On November 12, 1997, Thomas A. Edison Charter School of Wilmington, Inc. [the "Foundation"] was incorporated as a 501(c)(3) nonprofit corporation for the purpose of constructing a school from grades K through 8 by substantially improving an existing School facility, which was placed in service on July 1, 2000. The Foundation's primary role is to assist the School in carrying out its mission. The Foundation is a discretely presented component unit because of the significance of its financial relationship to the School [the primary government].

Use of Estimates

Preparation of the financial statements in conformity with U.S. 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 as of the date of the financial statements and reported amounts of revenues and expenses or expenditures during the reporting period. Accordingly, the actual results may differ from those estimates.

Government-Wide and Fund Financial Statements

The government-wide financial statements [statement of net position and statement of activities] report financial information on all of the nonfiduciary activities of the School. For the most part, the effects of interfund activity have been removed from the financial statements.

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 charges to students or other third parties who purchase or directly benefit from goods and services provided, and grants and contributions that are restricted to meeting the operating or capital requirements of a particular function.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Accounting Basis, & Financial Statement Presentation

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

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

Charges to school districts, contributions, and interest earned associated with the fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the fiscal year. Generally, all other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- The **general fund** is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Additionally, the School reports the following fund type:

- The **student activities agency fund** [a fiduciary fund] accounts for assets held on behalf of student groups. Since the agency fund is custodial in nature, the fund does not present results of operations.

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

Cash and Equivalents

The School's cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable

Anticipated bad debts are considered to be negligible by management and accordingly, no provision for bad debts has been reflected for the years presented.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables and Payables

Activities between funds representing lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivable/payable" [current portion] or "advances from/to other funds" [noncurrent]. At June 30, 2014 and 2013, the School had no such activities.

Advances between the funds reported in the fund financial statements, when present, are offset by a fund balance reserve account in the governmental funds to indicate that the advances are not available for appropriation and are not expendable available financial resources.

Prepayments and Other Assets

Payments to vendors reflecting costs applicable to future periods are recorded as prepayments or other assets in both the government-wide and the fund financial statements.

Capital Assets

Primary Government-Capital assets, which include leasehold improvements, furniture and equipment, are reported in the government-wide financial statements. The School defines a capital asset as an asset with an initial, individual cost of \$5,000 or more 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 as of the date of donation. The cost of normal maintenance and repairs that do not add to the value or materially extend the life of the capital asset is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed; however, the interest cost incurred during construction is not capitalized.

Leasehold improvements, furniture and equipment are depreciated using the straight-line method over their estimated useful lives ranging between 5 to 10 years.

Component Unit-Capital assets are stated at cost and consist mostly of leasehold improvements to the school facility. The cost of maintenance and repairs are charged to expense as incurred; the costs of renewals and betterments are capitalized. When capital assets are sold or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts, and any gain or loss is included in the statement of activities. The component unit defines a capital asset as an asset with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

The leasehold improvements are depreciated using the straight-line method based on the estimated useful life of the improvements over 39 years.

In accordance with the Financial Accounting Standards Board statement on "Accounting for the Impairment or Disposal of Long-Lived Assets", the Component Unit reviews its capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of a capital asset may not be recoverable. If the fair value is less than the carrying amount of the capital asset, an impairment loss is recognized for the difference. No impairment loss is recognized for the years presented.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mortgage Financing Costs

Component unit mortgage financing costs of \$108,263 are being amortized over the life of the mortgage [20 years] using the straight-line method. At June 30, 2014 and 2013, the accumulated amortization is \$73,526 and \$68,115.

Encumbrance Accounting

Encumbrance accounting is employed by the School's governmental funds. Encumbrances [e.g., purchase orders and contracts] outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Compensated Absences Liability

Vacation pay, plus related payroll taxes, is accrued when incurred in the government-wide financial statements. However, in the governmental funds, a liability is reported only and when the amounts have matured, for example, as a result of an employee's resignation or retirement.

Vacation-Twelve-month employees may accumulate up to 42 days of vacation. Days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

Sick Leave-Sick leave is earned as follows: 10 days for ten-month employees, 11 days for eleven-month employees, and 12 days for twelve-month employees. Unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is paid when an employee [a] qualifies and applies for State pension and is paid at a rate of 50% of the per diem rate of pay not to exceed 90 days or [b] in the case of death, 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.

Income Tax Status

The **component unit** is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Service [IRS] Code. However, income from certain activities not directly related to the component unit's tax exempt purpose is subject to taxation as unrelated business income. In addition, the component unit qualifies for the charitable contribution deduction under IRS Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation.

The Financial Accounting Standards Board on statements pertaining to the "Accounting for Uncertainty in Income Taxes" recognized in the financial statements prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. The federal returns of the component unit for the three prior fiscal years are subject to examination by the IRS, generally for three years after they are filed. The tax positions taken by management for these years are based on clear and unambiguous tax law; and management has a high level of confidence in the technical merits of the positions taken.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position and Fund Equity

In the government-wide financial statements, net position is reported in three categories: net position invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The net position invested in capital assets represents capital assets less accumulated depreciation less outstanding principal of related debt. The net position invested in capital assets does not include any unspent proceeds of capital debt. Restricted net position represents net assets restricted by parties outside of the School [such as creditors, grantors, contributors, laws, and regulations of other governments] and also include unspent grant awards not considered refundable advances. All other net position is considered unrestricted.

The School follows the requirements of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for its governmental funds. Under GASB Statement No. 54, fund balances are required to be reported according to the following classifications:

- **Nonspendable fund balance**-Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid amounts, inventories, assets held for sale, and long-term receivables.
- **Restricted fund balance**-Constraints placed on the use of these amounts are either externally imposed by creditors [such as debt covenants], grantors, contributors, or other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance**-Amounts that can only be used for specific purposes because of a formal action [resolution] by the School's highest level of decision-making authority: the School Board.
- **Assigned fund balance**-Amounts that are constrained by the School's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the School Board, or by an official to whom that authority has been given. With the exception of the general fund, this is the residual fund balance classification for all the governmental funds with positive balances.
- **Unassigned fund balance**-This is the residual classification of the general fund. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Evaluation of Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report, the date on which the financial statements were available to be issued. Management has determined that no additional disclosures or adjustments are necessary.

NOTE 2 - CASH AND EQUIVALENTS

The School's deposits [cash and equivalents] consist of the following:

Deposits Held by the State of Delaware

At June 30, 2014 and 2013, the School has cash and equivalents of \$2,431,881 and \$1,843,035. These deposits are part of the State investment pool that is controlled and administered by the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the same State office. The deposits are considered to be highly liquid and available for immediate use and, thus, are reflected as cash equivalents in the financial statements. The deposits held by the State's investment pool, an internal investment pool, are specifically identified for the School; however, the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with remaining maturity at the time of purchase [one year or less] are stated at cost or amortized cost.

Deposits Held by Financial Institutions

At June 30, 2014, the reported amount of deposits [book value] maintained by the component unit outside of the State Treasurer's Office is \$216,343 [\$195,146 plus \$21,197] and \$76,947 [\$55,813 plus \$21,134]. The deposits of \$217,054 and \$53,367 at June 30, 2014 and 2013, respectively, held by the one financial institution are fully insured under the Federal Deposit Insurance Corporation [FDIC].

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

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

Description	2014	2013
Passed through the State of Delaware:		
Local school districts	\$...	\$...
Federal government-Department of Agriculture	19,854	19,161
Federal government-Department of Education	22,925	6,405
Total intergovernmental receivables	42,779	25,566
Less: Allowance for doubtful accounts	...	...
Total amount due from other governments	\$ 42,779	\$ 25,566
Component unit:		
State of Delaware Division of Social Services	\$ 4,993	\$ 6,419

THOMAS A. EDISON CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

The capital assets activity for the years ended June 30 is as follows:

Description	June 30, 2014			Ending Balances
	Beginning Balances	Increases	Decreases	
Governmental activities:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 729,317	\$ 99,281	\$...	\$ 828,598
Furniture and equipment	1,104,999	11,739	...	1,116,738
Totals	1,834,316	111,020	...	1,945,336
Less accumulated depreciation:				
Leasehold improvements	98,285	43,609	...	141,894
Furniture and equipment	553,721	176,061	...	729,782
Totals	652,006	219,670	...	871,676
Governmental activities capital assets, net	\$1,182,310	\$ (108,650)	\$...	\$1,073,660
Component unit:				
Capital assets, being depreciated:				
Leasehold improvements	\$7,500,449	\$...	\$...	\$7,500,449
Less accumulated depreciation:				
Leasehold improvements	2,491,859	192,320	...	2,684,179
Component unit capital assets, net	\$5,008,590	\$ 192,320	\$...	\$4,816,270
June 30, 2013				
Description	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 535,963	\$ 193,354	\$...	\$ 729,317
Furniture and equipment	997,987	107,012	...	1,104,999
Totals	1,533,950	300,366	...	1,834,316
Less accumulated depreciation:				
Leasehold improvements	63,451	34,834	...	98,285
Furniture and equipment	357,681	196,040	...	553,721
Totals	421,132	230,874	...	652,006
Governmental activities capital assets, net	\$1,112,818	\$ 69,492	\$...	\$1,182,310
Component unit:				
Capital assets, being depreciated:				
Leasehold improvements	\$7,500,449	\$...	\$...	\$7,500,449
Less accumulated depreciation:				
Leasehold improvements	2,299,542	192,317	...	2,491,859
Component unit capital assets, net	\$5,200,907	\$ (192,317)	\$...	\$5,008,590

NOTE 5 - LONG-TERM DEBT OBLIGATIONS

The following is a summary of the annual changes in long-term obligations:

Description	Year Ended June 30, 2014				Due Within One Year
	Long-Term Obligations			Ending Balance	
	Beginning Balance	Additions	Deletions		
Governmental activity:					
Other long-term debt:					
Compensated absences	\$ 83,176	\$ 27,996	\$...	\$ 111,172	\$...

Compensated absences liability for governmental activities is generally liquidated with general fund resources.

THOMAS A. EDISON CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM DEBT OBLIGATIONS (continued)

Component Unit

On December 12, 2000, the Foundation entered into a mortgage note agreement with the Delaware Community Investment Corporation [DCIC] in the amount of \$3,037,000. The mortgage note is secured by a leasehold mortgage and a security agreement on the property located at 2200 Locust, Wilmington, Delaware. The terms of the mortgage note require 240 monthly payments of \$24,410, including interest at 7.47%, and the note matures January 1, 2021.

Mortgage note obligation maturities, including interest, are as follows:

Years Ending June 30	Principal	Interest	Total
2015	\$ 185,678	\$ 107,244	\$ 292,922
2016	200,033	92,889	292,922
2017	215,498	77,424	292,922
2018	232,159	60,763	292,922
2019	250,107	42,815	292,922
2020-2021	<u>436,142</u>	<u>27,766</u>	<u>463,908</u>
Total mortgage note obligation	1,519,617	408,901	1,928,518
Less: Current portion	<u>185,678</u>	<u>107,244</u>	<u>292,922</u>
Long-term portion	<u>\$1,333,939</u>	<u>\$ 301,657</u>	<u>\$1,635,596</u>

NOTE 6 - LEASING ARRANGEMENTS

The **component unit** leases the land and building shell from an unrelated third party under the terms of an operating leasing arrangement dated August 25, 1999. The arrangement has a term of 45 years, commencing September 1, 2000 [original commitment date was September 1, 1999] and ending August 31, 2044. The annual lease payment is due and payable on the first day of each lease year as follows:

Periods	Amounts
First 5 years	\$1 per annum
6 th through 10 th year	Not to exceed \$10,000
11 th through 15 th year	\$15,000 per annum
16 th through 20 th year	\$20,000 per annum
21 st through 25 th year	\$25,000 per annum
26 th through 45 th year	To be negotiated

At June 30, 2014, the minimum future rental payments required under the leasing arrangement having remaining terms in excess of one year for the remaining years in the aggregate are:

Years Ending June 30	Amount
2015	\$ 15,000
2016	20,000
2017	20,000
2018	20,000
2019	20,000
2020-2024	<u>145,000</u>
Minimum future rental payments required	<u>\$ 240,000</u>

The **component unit** in turn subleases the property to the School. Total rental revenue under the leasing arrangement amounted to \$292,922 and \$292,922 for the years ended June 30, 2014 and 2013, respectively.

NOTE 7 - PENSION PLAN

School employees are considered State employees and are covered under the State of Delaware's pension program, which is a cost-sharing, multiple-employer defined benefit public employees' retirement system [the State PERS]. The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. Delaware State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to the Delaware Code. The School contributed 21.02% for 2014 and 20.28% for 2013 of the State share of the employees' salary, and contributed the same percentages on the local and federal shares of the salary. The employees contribute 5% [3% for employees hired prior to 01/01/12] of salary in excess of \$6,000 per share up to social security maximum and 5% [3% for employees hired prior to 01/01/12] for any salary above the social security maximum. Total pension costs of \$420,243 for 2014 and \$342,719 for 2013 [State share], \$226,900 for 2014 and \$276,142 for 2013 [local share], and \$115,702 for 2014 and \$77,668 for 2013 [federal share] are included in the fiscal year 2013 and 2014 financial statements. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service-age 55 [reduced 0.4% (0.2% for employees hired prior to 01/01/12), each month under the age 60]
 - b. 25 years service-any age [reduced by 0.4% (0.2% for employees hired prior to 01/01/12), each month short of 30 years]
- Service retirement:
 - a. 15 years service-age 60 [20 yrs service hired on or after 01/01/12]
 - b. 30 years service-any age
 - c. 5 years service-age 62 [age 65 hired on or after 01/01/12]
- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension-An employee can vest pension rights after five consecutive years of service. If hired after 01/01/12, an employee can vest pension rights after 10 years, five of which must be consecutive.

More plan information is available in the State of Delaware Public Employee Retirement System [DPERS] *Comprehensive Annual Financial Report*. This report may be obtained by: writing DPERS [Suite 1, McArdle Building, 860 Silver Lake Blvd., Dover, DE 19904]; calling 1-800-722-7300; or at the DPERS website [www.delawarepensions.com/information/financials.shtml].

NOTE 8 - COMMITMENTS AND CONTINGENCIES

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

Grant Activity

The School receives federal financial assistance in the form of grants. The disbursement of funds received under these grants generally requires compliance with terms and conditions specified in grant agreements and is generally subject to oversight by State Office of Auditor of Accounts. Disallowed costs resulting from such audits, if any, could become a liability of the School. The School's management believes that such disallowance would not be material to the basic financial statements.

NOTE 9 - RISK MANAGEMENT

The School purchases commercial insurance policies in response to risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Premium payments for the insurance policies are recorded as expenditures/expenses of the School; and the insurance settlements did not exceed insurance coverage.

NOTE 10 - GASB STATEMENT IMPLEMENTATION

The School has implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to either [a] properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, or [b] recognize certain items that were previously reported as assets and liabilities as outflows of resources [expenses or expenditures] or inflows of resources [revenues]. The implementation of the Statement currently has no affect on the School's financial statements.

The School has implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. The Statement establishes financial reporting standards for state and local government pension plans [defined benefit pension plans and defined contribution plans] that are administered through trusts or equivalent arrangements as defined in the GASB Statement. The implementation of the Statement currently has no affect on the School's financial statements.

The School has implemented GASB Statement No. 70, *Accounting and Financial Reporting for Financial Reporting for Nonexchange Financial Guarantees*. The Statement requires State and local governments that extend and receive nonexchange financial guarantees to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the School will be required to make a payment on a guarantee. The implementation of the GASB Statement currently has no affect on the School's financial statements.

NOTE 11 - RESTATEMENT AND PRIOR PERIOD ADJUSTMENTS

The net position of the primary government has been increased by \$57,951 for the following errors at June 30, 2012:

- The Agency Fund was included with the governmental activities. The segregation of the Agency Fund caused a decrease of \$15,647.
- Compensated absences liability was improperly reflected with the governmental fund financial statements. The appropriate classification of the liability caused an increase of \$55,846.
- Federal grant revenue was understated by \$17,752. The error caused an increase of \$17,752.

The **component unit** cash and cash equivalents was increased by \$25,000 which also increased the changes in net assets for the fiscal year ended June 30, 2013. The error resulted by not recording a deposit in transit by the component unit from the primary government at June 30, 2013.

Required Supplemental Information [RSI] Section

THOMAS A. EDISON CHARTER SCHOOL

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND
Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
REVENUES				
Charges to school districts	\$ 2,700,000	\$ 2,700,000	\$ 2,715,165	\$ 15,165
State funding	4,455,000	4,455,000	4,609,268	154,268
Federal funding-education	1,348,022	1,348,022	1,617,387	269,365
Federal funding-food service	500,000	500,000	526,463	26,463
Earnings on cash and equivalents	11,000	11,000	10,440	(560)
Program services fees	60,000	60,000	21,292	(38,708)
Miscellaneous revenues	9,500	9,500	33,639	24,139
Total revenues	<u>9,083,522</u>	<u>9,083,522</u>	<u>9,533,654</u>	<u>450,132</u>
EXPENDITURES				
Current:				
Salaries	3,898,598	3,898,598	3,830,443	68,155
Employment costs	1,818,306	1,818,306	1,702,414	115,892
Travel	46,500	46,500	73,251	(26,751)
Contracted services	468,533	468,533	409,514	59,019
Communications	22,300	22,300	18,033	4,267
Public utility services	174,000	174,000	166,809	7,191
Insurance	38,000	38,000	38,248	(248)
Transportation	611,000	611,000	509,084	101,916
Land/Building/Facilities	308,760	308,760	439,760	(131,000)
Repairs and maintenance	399,294	399,294	449,091	(49,797)
Other contracted services	163,000	163,000	180,299	(17,299)
Supplies and materials	391,000	391,000	272,515	118,485
Operating supplies	4,000	4,000	56,907	(52,907)
Food services	550,000	550,000	549,459	541
Contingencies	139,000	139,000	..	139,000
Capital outlay	39,200	39,200	130,190	(90,990)
Total expenditures	<u>9,071,491</u>	<u>9,071,491</u>	<u>8,826,017</u>	<u>245,474</u>
EXCESS REVENUES OVER EXPENDITURES	<u>12,031</u>	<u>12,031</u>	<u>707,637</u>	<u>695,606</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior years expenditures	..	..	..	..
Refund of prior years revenues	..	..	..	..
Appropriations to component unit	..	..	(150,000)	(150,000)
Total other financing sources (uses)	<u>..</u>	<u>..</u>	<u>(150,000)</u>	<u>(150,000)</u>
NET CHANGE IN FUND BALANCES	<u>12,031</u>	<u>12,031</u>	<u>557,637</u>	<u>545,606</u>
FUND BALANCES				
Beginning of year	..	..	1,581,077	1,581,077
End of year	<u>\$ 12,031</u>	<u>\$ 12,031</u>	<u>\$ 2,138,714</u>	<u>\$ 2,126,683</u>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School annually adopts a budget for the general fund. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. Budgets for the governmental funds are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States of America on a basis consistent with the legally adopted budgets as amended. Generally, unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Material Violations

There were no material violations of the annual appropriated budget for the general fund for the current fiscal year.

See Report of Independent Auditor

Supplementary Information Section

THOMAS A. EDISON CHARTER SCHOOL
BALANCE SHEETS-GENERAL FUND
As of June 30, 2014 and 2013

	2014				2013			
	State Fund	Local Fund	Federal Fund	Total General Fund	State Fund	Local Fund	Federal Fund	Total General Fund
ASSETS								
Cash and equivalents:								
Unrestricted	\$ 92,427	\$2,232,440	\$...	\$2,324,867	\$ 242,920	\$1,494,091	\$...	\$1,737,011
Restricted	5,282	101,732	...	107,014	8,991	97,033	...	106,024
Accounts receivable:								
Food service customers	...	...	...	...	...	168	...	168
Other	...	767	...	767	...	418	...	418
Due from other governments	...	19,854	22,925	42,779	...	19,161	6,405	25,566
Due from component unit	...	15,924	...	15,924	...	11,960	...	11,960
Prepayments and other assets	...	2,106	...	2,106	...	24,410	...	24,410
TOTAL ASSETS	<u>\$ 97,709</u>	<u>\$2,372,823</u>	<u>\$ 22,925</u>	<u>\$2,493,457</u>	<u>\$ 251,911</u>	<u>\$1,647,241</u>	<u>\$ 6,405</u>	<u>\$1,905,557</u>
LIABILITIES								
Accounts payable	\$ 62,768	\$ 40,243	\$ 22,925	\$ 125,936	\$ 105,552	\$ 30,317	\$ 6,405	\$ 142,274
Accrued salaries and related costs	228,807	...	...	228,807	182,206	...	...	182,206
Due to other governments	...	...	...	...	...	...	...	...
Total liabilities	<u>291,575</u>	<u>40,243</u>	<u>22,925</u>	<u>354,743</u>	<u>287,758</u>	<u>30,317</u>	<u>6,405</u>	<u>324,480</u>
FUND BALANCES (DEFICIT)								
Nonspendable:								
Prepayments and other assets	...	2,106	...	2,106	...	24,410	...	24,410
Restricted-specific programs	5,282	101,732	...	107,014	8,991	97,033	...	106,024
Committed-encumbered	92,398	...	...	92,398	241,501	...	...	241,501
Unassigned	(291,546)	2,228,742	...	1,937,196	(286,339)	1,495,481	...	1,209,142
Total fund balances	<u>(193,866)</u>	<u>2,332,580</u>	<u>...</u>	<u>2,138,714</u>	<u>(35,847)</u>	<u>1,616,924</u>	<u>...</u>	<u>1,581,077</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 97,709</u>	<u>\$2,372,823</u>	<u>\$ 22,925</u>	<u>\$2,493,457</u>	<u>\$ 251,911</u>	<u>\$1,647,241</u>	<u>\$ 6,405</u>	<u>\$1,905,557</u>

See Report of Independent Auditor

THOMAS A. EDISON CHARTER SCHOOL
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GENERAL FUND
Years Ended June 30, 2014 and 2013

	2014				2013 [Restated]			
	State Fund	Local Fund	Federal Fund	Total General Fund	State Fund	Local Fund	Federal Fund	Total General Fund
REVENUES								
Charges to school districts	\$...	\$2,715,165	\$...	\$2,715,165	\$...	\$2,768,268	\$...	\$2,768,268
State funding	4,464,147	145,121	...	4,609,268	4,319,799	83,978	...	4,403,777
Federal funding	...	526,463	1,617,387	2,143,850	...	520,592	1,318,576	1,839,168
Earnings on cash and equivalents	...	10,440	...	10,440	...	10,705	...	10,705
Food services fees	...	...	...	...	...	343	...	343
Program services fees	...	21,292	...	21,292	...	15,205	...	15,205
Miscellaneous revenues	...	33,639	...	33,639	...	19,455	...	19,455
Total revenues	4,464,147	3,452,120	1,617,387	9,533,654	4,319,799	3,418,546	1,318,576	9,056,921
EXPENDITURES								
Current:								
Salaries	2,054,394	1,146,533	629,516	3,830,443	1,741,722	1,494,390	446,958	3,683,070
Employment costs	994,369	484,824	223,221	1,702,414	829,471	609,082	143,884	1,582,437
Travel	2,537	28,874	41,840	73,251	...	6,171	20,282	26,453
Contracted services	113,318	6,361	289,835	409,514	102,444	86,459	213,349	402,252
Communications	5,385	12,648	...	18,033	3,671	16,234	...	19,905
Public utility services	166,809	...	...	166,809	138,525	11,402	...	149,927
Insurance	34,494	3,754	...	38,248	27,296	8,765	...	36,061
Transportation	392,239	51,746	65,099	509,084	584,712	...	...	584,712
Land/Building/Facilities	283,512	49,573	106,675	439,760	292,922	69,490	153,408	515,820
Repairs and maintenance	368,650	80,441	...	449,091	352,894	45,056	...	397,950
Other contracted services	109,469	7,624	63,206	180,299	22,708	12,090	115,253	150,051
Supplies and materials	56,864	13,197	202,454	272,515	8,732	33,450	190,568	232,750
Operating supplies	10,386	28,391	18,130	56,907	8,724	28,339	17,154	54,217
Food services:								
Food and other costs	...	549,459	...	549,459	...	560,690	...	560,690
Refund of prior years revenues	...	...	...	...	...	1,975	...	1,975
Capital outlay:								
Building improvements	...	73,498	...	73,498	...	156,302	...	156,302
Equipment	4,740	19,908	24,717	49,365	13,711	9,296	17,720	40,727
Food services	...	7,327	...	7,327	...	3,710	...	3,710
Total expenditures	4,597,166	2,564,158	1,664,693	8,826,017	4,127,532	3,152,901	1,318,576	8,599,009
EXCESS (DEFICIT) REVENUES OVER EXPENDITURES	(133,019)	887,962	(47,306)	707,637	192,267	265,645	...	457,912
OTHER FINANCING SOURCES (USES)								
Refund of prior years expenditures	...	(47,306)	47,306	...	55,846	...	17,752	73,598
Refund of prior years revenues	...	...	...	...	...	(15,647)	...	(15,647)
Appropriations to component unit	(25,000)	(125,000)	...	(150,000)	...	(50,000)	...	(50,000)
Total other financing sources (uses)	(25,000)	(172,306)	47,306	(150,000)	55,846	(65,647)	17,752	7,951
NET CHANGE IN FUND BALANCES	(158,019)	715,656	...	557,637	248,113	199,998	17,752	465,863
FUND BALANCES (DEFICIT)								
Beginning of year	(35,847)	1,616,924	...	1,581,077	(258,817)	1,415,837	(41,806)	1,115,214
Interfund transfers	...	...	...	...	(25,143)	1,089	24,054	...
End of year	<u>\$ (193,866)</u>	<u>\$2,332,580</u>	<u>\$...</u>	<u>\$2,138,714</u>	<u>\$ (35,847)</u>	<u>\$1,616,924</u>	<u>\$...</u>	<u>\$1,581,077</u>

See Report of Independent Auditor

Reports Required by

OMB Circular A-133



HAGGERTY & HAGGERTY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

American Institute of CPA
Pennsylvania Institute of CPA*
Delaware Society of CPA†
Private Companies Practice Section

James R. Zdimal, CPA†
Vincent S. Barbone, CPA, CFE*†

**Report of Independent Auditor
on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with Government Auditing Standards**

To Members of the School Board
Thomas A. Edison Charter School
Wilmington, Delaware

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Thomas A. Edison Charter School, Wilmington, Delaware [a component unit of the State of Delaware], as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Thomas A. Edison Charter School's basic financial statements and have issued our report thereon dated October 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Thomas A. Edison Charter 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 Thomas A. Edison Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Thomas A. Edison Charter School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that are not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-01 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-02 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thomas A. Edison Charter School's financial statements are free of 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*.

Thomas A. Edison Charter School's Response to Findings

Thomas A. Edison Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Thomas A, Edison Charter School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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.

Haggerty & Haggerty, P.A.
Certified Public Accountants

October 15, 2014
Wilmington, Delaware



HAGGERTY & HAGGERTY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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Vincent S. Barbone, CPA, CFE*†

**Report of Independent Auditor
on Compliance for Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

To the Board of Directors
Thomas A. Edison Charter School
Wilmington, Delaware

Report on Compliance for Each Major Federal Program

We have audited Thomas A. Edison Charter School, Wilmington, Delaware [a component unit of the State of Delaware]'s compliance with types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Thomas A. Edison Charter School's major federal programs for the year ended June 30, 2014. Thomas A. Edison Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Thomas A. Edison Charter School's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Thomas A. Edison Charter 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 each major federal program. However, our audit does not provide a legal determination of Thomas A. Edison Charter School's compliance.

Opinion on Each Major Federal Program

In our opinion, Thomas A. Edison 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 each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Thomas A. Edison Charter 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 Thomas A. Edison Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Thomas A. Edison Charter School's internal control over compliance.

Report on Internal Control Over Compliance (continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-01 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-02 to be a significant deficiency.

Thomas A. Edison Charter School's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Thomas A. Edison Charter School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report of Schedule of Expenditures of Federal Awards Required By OMB Circular A-133

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Thomas A. Edison Charter School, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Thomas A. Edison Charter School's basic financial statements. We issued our report thereon dated October 15, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Haggerty & Haggerty, P.A.
Certified Public Accountants

October 15, 2014
Wilmington, Delaware

THOMAS A. EDISON CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED DISCLOSURES

Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through State of Delaware, Department of Education [DOE]:			
[1] School Breakfast Program [SBP]	10.553	FSF-91100	\$ 164,099
[1] National School Lunch Program [NSLP]	10.555	FSF-91100	325,737
Fresh Fruit and Vegetable Program [FFVP]	10.582	FSF-91100	<u>36,627</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 526,463</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through State of Delaware, Department of Education [DOE]:			
Title I Grants to Local Educational Agencies	84.010	Title I FSF-40554	\$ 640,950
Special Education-Grants to States [IDEA, Part B]	84.027	IDEA FSF-40564	176,831
Twenty-First Century Community Learning Centers	84-287C	21 T CCLC FSF-40240	452,906
Improving Teacher Quality- State Grants	84.367A	TITLE II FSF-40114	52,003
State Fiscal Stabilization Fund [SFSF] Race-to-the-Top Incentive Grants, Recovery Act	84.395	ARRA-RTTT FSF-40192	<u>294,697</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 1,617,387</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,143,850</u>

Note: Number next to program description indicates federal award clusters.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards presents the activity of all known federal awards received by Thomas A. Edison Charter School. Thomas A. Edison Charter School's reporting entity is defined in Note 1 to the School's basic financial statements. Only the federal awards received by Thomas A. Edison Charter School are included on this schedule.

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 1 of Thomas A. Edison Charter School's financial statements.

SECTION I - 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? X yes no
 • Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
 • Material weakness(es) identified? X yes no
 • Significant deficiency(ies) identified? X 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 with Section 510(a) of OMB Circular A-133? yes X no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.287	Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

SECTION II - FINDINGS-FINANCIAL STATEMENTS AUDIT

Refer to page 30.

SECTION III - FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAM AUDIT

None reported.

SECTION II - FINDINGS-FINANCIAL STATEMENTS AUDIT

2014-01 MONITORING PROCEDURES

Statement of Condition: The School does not perform monitoring procedures in a timely manner. As a result, duplicate payments and other overpayments to external vendors were made and not detected or prevented.

Recommendation: We again recommend the School perform monitoring procedures in a timely manner in order to prevent or detect and correct errors timely.

Views of Responsible Officers and Planned Corrective Action

"Duplicate payments were made to two individual vendors. One of our biggest prepaid vendors sends multiple shipments and invoices that do not reflect payments. We are asking the vendor to list payments received on all invoices. In addition, the Business Manager will monitor invoices and vendor payments closely to insure no duplicate or overpayments are made. The CFO will review each invoice to insure information is entered correctly in the First State Financial [FSF] System before final approval."

2014-02 PAYROLL FUNCTION

Statement of Condition: Our review of the payroll function revealed that timesheets, even though approved by the supervisors, were incomplete. However, the incompleteness of the timesheets did not give rise to material questioned costs.

Recommendation: We recommend that supervisors take more care when approving timesheets in order to provide assurance that timesheets are complete and accurate.

Views of Responsible Officers and Planned Corrective Action

"Timesheets for the 21st CCLC grant did not have the grants name referenced. Moving forward, the 21st CCLC Program Director will insure the grants name is recorded on each timesheet and the Payroll Specialist will verify this."

SECTION II - FINDINGS-FINANCIAL STATEMENTS AUDIT

2013-01 MONITORING PROCEDURES

Statement of Condition: The School does not perform monitoring procedures in a timely manner. As a result, certain State funding reverted back to the State, and a substantial amount of federal funding was lost due to the expiration of certain awards.

Recommendation: We recommended that the School perform monitoring procedures in a timely manner to prevent future loss of funding.

Views of Responsible Officers and Planned Corrective Action

"Beginning April 1, 2013, on a monthly basis, the CFO will discuss with the Business Manager and Head of School unused grants funds, including budget categories and expiration dates to ensure funds are spent on a timely basis. If grant amendments are needed it will be discussed at this time."

Current Status

Management has implemented the recommendation; however, because of the timing of the prior fiscal year audit, management was unable to fully implement the monitoring procedures, resulting in additional funds lost during the current fiscal year. The auditor will follow-up in the subsequent audit.

2013-02 HUMAN RESOURCES/PAYROLL FUNCTION

Statement of Condition: Our review of the payroll function revealed that the personnel files were substantially incomplete.

Recommendation: We recommended that the Human Resources Department of the School review every personnel file and update any and all missing forms, information, etc. We also recommended the development of a checklist to place in each personnel file to ensure that each file is complete.

Views of Responsible Officers and Planned Corrective Action

"The Payroll and Human Resources Associates are currently reviewing each file to determine all missing documentation. A checklist has been created listing all necessary documentation that should be contained in each file."

Current Status

Management implemented the recommendation; however, our current audit procedures revealed that some files still require attention. The auditor will follow-up in the subsequent audit.

Continued . . .

SECTION II - FINDINGS-FINANCIAL STATEMENT AUDIT (continued)

2013-03 CASH DISBURSEMENTS FUNCTION

Statement of Condition: Our review of the cash disbursements function revealed that the School uses a purchase order system; however, the purchase orders are based on budgeted amounts and not on actual or contracted amounts. Furthermore, the School does not prepare the necessary change orders when warranted in accordance with the State's Policy and Procedures Manual.

Recommendation: We recommended the School review its purchase order process and make the necessary changes to ensure that the School is in compliance with the State's Policy and Procedures Manual.

Views of Responsible Officers and Planned Corrective Action

"The School's fiscal year begins on July 1st. At this time the School budget has been approved for the new school year and vendor contracts may not have been finalized. For this reason the School uses budgeted amounts to process encumbrances for contracted vendors. Going forward the School will encumber obligations to be paid using State funds only. Once contracts have been finalized and State funding amounts have been verified, the Business Manager will complete the necessary change orders in the State accounting system to reflect the actual contracted amounts."

Current Status

The recommendation was implemented. No further action is warranted.

SECTION III - FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAM AUDIT

None reported or outstanding.