

Single Audit Report

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

Year Ended June 30, 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:
Statement of Net Position.....3
Statement of Activities.....4
Fund Financial Statements:
Balance Sheet-Governmental Funds.....5
Reconciliation of the Balance Sheet
of Governmental Funds to the Statement of Net Position.....6
Statement of Revenues, Expenditures
and Change in Fund Balances-Governmental Funds.....7
Reconciliation of the Statement of Revenues, Expenditures and Change
in Fund Balances of Governmental Funds to the Statement of Activities....8
Statement of Fiduciary Net Position-Agency Fund.....9
Notes to Financial Statements.....10-18

Required Supplemental Information [RSI] Section

Schedule of Revenues, Expenditures and
Change in Fund Balance-Budget and Actual-General Fund.....19

Supplementary Information Section

Balance Sheet-General Fund.....20
Statement of Revenues, Expenditures
and Change in Fund Balances-General Fund.....21

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*.....22-23
Report of Independent Auditor
on Compliance with Requirements
that Could Have a Direct and Material Effect
on Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133.....24-25
Schedule of Expenditures of Federal Awards and Related Disclosures.....26
Schedule of Findings and Questioned Costs.....27-28
Schedule of Prior Year Findings and Questioned Costs.....29



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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

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, Wilmington, Delaware [a component unit of the State of Delaware] as of and for the year ended June 30, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Thomas A. Edison Charter School, Wilmington, Delaware, as of June 30, 2013, and the respective changes in financial position for the year 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 19 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, Wilmington, Delaware's financial statements. The supplementary information reflected on pages 20 and 21 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 20 and 21 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 March 21, 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, the School Board, others within the entity, the 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

March 21, 2014
Wilmington, Delaware

Basic Financial Statements Section

THOMAS A. EDISON CHARTER SCHOOL
STATEMENT OF NET POSITION
As of June 30, 2013

| | 2013 | |
|---|---|---------------------------------|
| | Primary Government Governmental Activities | Component Unit Foundation |
| ASSETS | | |
| Current assets: | | |
| Cash and equivalents | \$ 1,843,035 | \$ 30,813 |
| Receivables, net of allowance: | | |
| Food service customers | 168 | ... |
| Other | 418 | ... |
| Due from other governments | 25,566 | 6,419 |
| Restricted assets-replacement reserve: | | |
| Cash and equivalents | ... | 21,134 |
| Prepayments and other assets | 24,410 | ... |
| Due from component unit | 11,960 | ... |
| Total current assets | <u>1,905,557</u> | <u>58,366</u> |
| Noncurrent assets: | | |
| Capital assets, net of depreciation: | | |
| Nondepreciable | ... | ... |
| Depreciable | 1,182,310 | 5,008,590 |
| Mortgage financing costs, net of amortization | ... | 40,148 |
| Total noncurrent assets | <u>1,182,310</u> | <u>5,048,738</u> |
| TOTAL ASSETS | <u>3,087,867</u> | <u>5,107,104</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 142,274 | 3,942 |
| Accrued salaries and related costs | 182,206 | ... |
| Due to primary government | ... | 11,960 |
| Mortgage note payable, current portion | ... | 172,354 |
| Total current liabilities | <u>324,480</u> | <u>188,256</u> |
| Noncurrent liabilities: | | |
| Mortgage note payable, net of current portion | ... | 1,519,617 |
| Compensated absences liability, long-term portion | 83,176 | ... |
| Total noncurrent liabilities | <u>83,176</u> | <u>1,519,617</u> |
| TOTAL LIABILITIES | <u>407,656</u> | <u>1,707,873</u> |
| NET POSITION | | |
| Net investment in capital assets | 1,182,310 | 3,356,767 |
| Restricted-specific programs | 106,024 | ... |
| Unrestricted | 1,391,877 | 42,464 |
| TOTAL NET POSITION | <u>\$ 2,680,211</u> | <u>\$ 3,399,231</u> |

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 | Charges for Services | Program Revenues | | Net (Expense) Revenue & Changes in Net Position | |
|--|---------------------|----------------------|------------------------------------|---------------|---|---------------------|
| | | | Grants and Contributions Operating | Capital | Primary Government | Component Unit |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| Instructional services | \$ 6,372,027 | \$ 15,205 | \$ 1,412,477 | \$... | \$ (4,944,345) | \$... |
| Supporting services: | | | | | | |
| Operation and maintenance of facilities | 908,705 | ... | ... | ... | (908,705) | ... |
| 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 | 8,662,693 | 15,548 | 2,432,882 | ... | (6,214,263) | ... |
| DISCRETELY PRESENTED COMPONENT UNIT: | | | | | | |
| Foundation | 341,972 | 292,922 | 25,600 | ... | ... | (23,450) |
| TOTAL PRIMARY GOVERNMENT AND COMPONENT UNIT | <u>\$ 9,004,665</u> | <u>\$ 308,470</u> | <u>\$ 2,458,482</u> | <u>\$...</u> | <u>(6,214,263)</u> | <u>(23,450)</u> |
| GENERAL REVENUES AND TRANSFERS | | | | | | |
| Charges to school districts | | | | | 2,768,268 | ... |
| State aid not restricted to specific purposes | | | | | 3,810,063 | ... |
| Earnings on cash and equivalents | | | | | 10,705 | 62 |
| Miscellaneous revenues | | | | | 19,455 | ... |
| Total general revenues and transfers | | | | | <u>6,608,491</u> | <u>62</u> |
| CHANGES IN NET POSITION | | | | | 394,228 | (23,388) |
| 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 | | | | | <u>2,285,983</u> | <u>3,422,619</u> |
| End of year | | | | | <u>\$ 2,680,211</u> | <u>\$ 3,399,231</u> |

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

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

| | <u>Governmental Funds</u> |
|--|---------------------------|
| ASSETS | |
| Cash and equivalents | \$ 1,843,035 |
| Accounts receivable: | |
| Food service customers | 168 |
| Other | 418 |
| Due from other governments | 25,566 |
| Due from component unit | 11,960 |
| Prepayments and other assets | <u>24,410</u> |
| TOTAL ASSETS | <u>\$ 1,905,557</u> |
| LIABILITIES | |
| Accounts payable | \$ 142,274 |
| Accrued salaries and related costs | 182,206 |
| Due to other governments | <u>...</u> |
| Total liabilities | <u>\$ 324,480</u> |
| FUND BALANCES | |
| Nonspendable-prepayments and other assets | 24,410 |
| Restricted-specific programs | 106,024 |
| Committed-encumbered | 241,501 |
| Unassigned | <u>1,209,142</u> |
| Total fund balances | <u>1,581,077</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <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 SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 As of June 30, 2013

| | <u>Governmental Funds</u> |
|---|-------------------------------|
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Total fund balances-governmental funds | \$ 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, 2013, the total cost of capital assets is \$1,834,316, and the related accumulated depreciation is \$652,006, respectively. | 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>(83,176)</u> |
| Total net position-governmental activities | <u>\$ 2,680,211</u> |

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

THOMAS A. EDISON CHARTER SCHOOLSTATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GOVERNMENTAL FUNDS
Year Ended June 30, 2013

| | <u>Governmental Funds</u> |
|--|----------------------------|
| REVENUES | |
| Charges to school districts | \$ 2,768,268 |
| State aid | 4,403,777 |
| Federal aid | 1,839,168 |
| Earnings on cash and equivalents | 10,705 |
| Food services fees | 343 |
| Program services fees | 15,205 |
| Miscellaneous revenues | <u>19,455</u> |
| Total revenues | \$ 9,056,921 |
| EXPENDITURES | |
| Current: | |
| Instructional services | 6,201,135 |
| Supporting services: | |
| Operation and maintenance of facilities | 908,705 |
| Transportation | 584,712 |
| Food services | 566,375 |
| Capital outlay | <u>388,082</u> |
| Total expenditures | <u>8,649,009</u> |
| EXCESS (DEFICIT) REVENUES OVER EXPENDITURES | 407,912 |
| 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 | <u>(15,647)</u> |
| Total other financing sources (uses) | <u>57,951</u> |
| NET CHANGE IN FUND BALANCES | 465,863 |
| FUND BALANCES | |
| Beginning of year | <u>1,115,214</u> |
| End of year | <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 STATEMENT OF REVENUES, EXPENDITURES AND

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

Year Ended June 30, 2013

Governmental
Funds

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

Net change in fund balances-total governmental funds \$ 407,912

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.

| <u>Description</u> | <u>Amount</u> | |
|----------------------|------------------|--------|
| Capital outlay | \$ 300,366 | |
| Depreciation expense | <u>(230,874)</u> | 69,492 |

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 \$83,176 for the period.

(83,176)

Change in net position-governmental activities \$ 394,228

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

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

| | | <u>Student Activities Fund</u> |
|--------------------------|----------------|--------------------------------|
| ASSETS | | |
| Cash and equivalents | | \$ <u>19,707</u> |
| LIABILITIES | | |
| Due to student groups | \$ 19,707 | |
| Due to other groups | <u> .00</u> | |
| TOTAL LIABILITIES | | <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 and other organizations.

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payable" [i.e., current portion] or "advances from/to other funds" [i.e., the noncurrent portion]. At June 30, 2013, the School had no such activity.

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 school facilities. Expenditures for maintenance and repairs are charged to expense as incurred; the costs of renewals and betterments are capitalized. When 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.

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 year presented.

The leasehold improvements are depreciated using the straight-line method based on the estimated useful life ranging from 5 to 39 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mortgage Financing Costs

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, 2013, the accumulated amortization is \$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 fiscal 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 120 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 120 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, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. The net position invested in capital assets, net of related debt 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.

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 are necessary.

THOMAS A. EDISON CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND EQUIVALENTS

At June 30, 2013, the School has cash and equivalents of \$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.

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 | Amount |
|--|------------------|
| Passed through the State of Delaware: | |
| Local school districts | \$... |
| Federal government-Department of Agriculture | 19,161 |
| Federal government-Department of Education | 6,405 |
| Total intergovernmental receivables | <u>25,566</u> |
| Less: Allowance for doubtful accounts | <u>...</u> |
| Total amount due from other governments | <u>\$ 25,566</u> |

NOTE 4 - CAPITAL ASSETS

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

| Description | June 30, 2013 | | | Ending Balances |
|---|--------------------|---------------------|---------------|--------------------|
| | Beginning Balances | Increases | Decreases | |
| 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 | <u>1,533,950</u> | <u>300,366</u> | <u>...</u> | <u>1,834,316</u> |
| Less accumulated depreciation: | | | | |
| Leasehold improvements | 63,451 | 34,834 | ... | 98,285 |
| Furniture and equipment | 357,681 | 196,040 | ... | 553,721 |
| Totals | <u>421,132</u> | <u>230,874</u> | <u>...</u> | <u>652,006</u> |
| Governmental activities capital assets, net | <u>\$1,112,818</u> | <u>\$ 69,492</u> | <u>\$...</u> | <u>\$1,182,310</u> |
| Component unit: | | | | |
| Capital assets, being depreciated: | | | | |
| Leasehold improvements | \$7,500,449 | \$... | \$... | \$7,500,449 |
| Less accumulated depreciation: | | | | |
| Leasehold improvements | <u>2,299,542</u> | <u>192,317</u> | <u>...</u> | <u>2,491,859</u> |
| Component unit capital assets, net | <u>\$5,200,907</u> | <u>\$ (192,317)</u> | <u>\$...</u> | <u>\$5,008,590</u> |

NOTE 5 - LONG-TERM DEBT OBLIGATIONS

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

| Description | Year Ended June 30, 2013 | | | | Due Within One Year |
|-------------------------------|--------------------------|-----------|-----------|----------------|---------------------|
| | Long-Term Obligations | | | Ending Balance | |
| | Beginning Balance | Additions | Deletions | | |
| Governmental activity: | | | | | |
| Other long-term debt: | | | | | |
| Compensated absences | \$ 55,846 | \$ 27,330 | \$ | \$ 83,176 | \$ |

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

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 note is secured with a leasehold mortgage and a security agreement on the property located at 900 East 22nd Street, Wilmington, Delaware. The mortgage note terms require 240 monthly payments of \$24,410 at 7.47%. The final payment is due and payable January 1, 2021.

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

| Years Ending June 30 | Principal | Interest | Total |
|--------------------------------|--------------------|-------------------|--------------------|
| 2014 | \$ 172,354 | \$ 120,568 | \$ 292,922 |
| 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 | 1,691,971 | 529,469 | 2,221,440 |
| Less: Current portion | <u>172,354</u> | <u>120,568</u> | <u>292,922</u> |
| Long-term portion | <u>\$1,519,617</u> | <u>\$ 408,901</u> | <u>\$1,928,518</u> |

NOTE 6 - LEASING ARRANGEMENTS

The component unit leases the land and the original building shell from an unrelated third party under the terms of an operating leasing arrangement dated August 25, 1999. The leasing arrangement calls for a term of forty-five years, commencing September 1, 2000 [original commitment date was September 1, 1999] and ending August 31, 2044. The annual rental 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 |

NOTE 6 - LEASING ARRANGEMENTS (continued)

At June 30, 2013, 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 |
|---|-------------------|
| 2014 | \$ 15,000 |
| 2015 | 15,000 |
| 2016 | 20,000 |
| 2017 | 20,000 |
| 2018 | 20,000 |
| 2019-2024 | <u>165,000</u> |
| Minimum future rental payments required | <u>\$ 255,000</u> |

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

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 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 3.00% of salary in excess of \$6,000 per share up to social security maximum and 3.00% for any salary above the social security maximum. Total pension costs of \$342,719 [State share], \$276,142 [local share], and \$77,668 [federal share] are included in the fiscal year 2013 financial statements. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service-age 55 [reduced 0.2%, each month under the age 60]
 - b. 25 years service-any age [reduced by 0.2%, 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 - 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 an expenditure/expense of the School; and insurance settlements did not exceed insurance coverage.

NOTE 9 - 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 audit by the State Office of Auditor of Accounts. Disallowed claims 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 10 - GASB STATEMENT IMPLEMENTATION

The School has implemented GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*". The statement codifies pre-1989 standards set by the Financial Accounting Standards Board [FASB] and the American Institute of Certified Public Accountants [AICPA], which are used for fiduciary fund and government-wide reporting. The School's notes to the basic financial statements are to reflect the level of disclosure required by the new Statement.

The School has implemented GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*". This new guidance creates two sections on the balance sheet [deferred outflows and inflows] and revises other government-wide and fiduciary terminology as a result of the change. The government-wide and fiduciary statements are revised to reflect the new terminology.

NOTE 11 - RESTATEMENT OF BEGINNING NET POSITION

The net position of the primary government has been increased by \$57,951 for the following errors as of 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.

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, 2013

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|------------------|------------------|-------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES | | | | |
| Charges to school districts | \$ 2,325,000 | \$ 2,325,000 | \$ 2,768,268 | \$ 443,268 |
| State aid | 4,438,750 | 4,438,750 | 4,403,777 | (34,973) |
| Federal aid-education | 1,645,449 | 1,645,449 | 1,318,576 | (326,873) |
| Federal aid-food service | 525,000 | 525,000 | 520,592 | (4,408) |
| Earnings on cash and equivalents | 13,000 | 13,000 | 10,705 | (2,295) |
| Food services fees | ... | ... | 343 | 343 |
| Program services fees | ... | ... | 15,205 | 15,205 |
| Miscellaneous revenues | 30,000 | 30,000 | 19,455 | (10,545) |
| Total revenues | 8,977,199 | 8,977,199 | 9,056,921 | 79,722 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries | 3,872,593 | 3,872,593 | 3,683,070 | 189,523 |
| Employment costs | 1,712,848 | 1,712,848 | 1,582,437 | 130,411 |
| Travel | 47,500 | 47,500 | 26,453 | 21,047 |
| Contracted services | 292,115 | 292,115 | 402,252 | (110,137) |
| Communications | 16,900 | 16,900 | 19,905 | (3,005) |
| Public utility services | 154,000 | 154,000 | 149,927 | 4,073 |
| Insurance | 34,000 | 34,000 | 36,061 | (2,061) |
| Transportation | 595,000 | 595,000 | 584,712 | 10,288 |
| Land/Building/Facilities | 447,153 | 447,153 | 324,767 | 122,386 |
| Repairs and maintenance | 404,222 | 404,222 | 397,950 | 6,272 |
| Other contracted services | 156,624 | 156,624 | 150,051 | 6,573 |
| Supplies and materials | 490,000 | 490,000 | 282,750 | 207,250 |
| Operating supplies | 18,000 | 18,000 | 54,217 | (36,217) |
| Food services | 550,000 | 550,000 | 562,665 | (12,665) |
| Contingencies | 139,000 | 139,000 | ... | 139,000 |
| Capital outlay | 42,000 | 42,000 | 391,792 | (349,792) |
| Total expenditures | 8,971,955 | 8,971,955 | 8,649,009 | 322,946 |
| EXCESS (DEFICIT) REVENUES OVER EXPENDITURES | | | | |
| | 5,244 | 5,244 | 407,912 | 402,668 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Refund of prior years expenditures: | | | | |
| Federal | ... | ... | 17,752 | 17,752 |
| State and local | ... | ... | 55,846 | 55,846 |
| Refund of prior years revenues | ... | ... | (15,647) | (15,647) |
| Total other financing sources (uses) | ... | ... | 57,951 | 57,951 |
| NET CHANGE IN FUND BALANCES | 5,244 | 5,244 | 465,863 | 460,619 |
| FUND BALANCES | | | | |
| Beginning of year | ... | ... | 1,115,214 | 1,115,214 |
| End of year | \$ 5,244 | \$ 5,244 | \$ 1,581,077 | \$ 1,575,833 |

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School annually adopts a budget for the general fund financial statements. 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. 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 SHEET-GENERAL FUND
As of June 30, 2013

| | 2013 | | | |
|--|-------------------|--------------------|-----------------|--------------------------|
| | State Fund | Local Fund | Federal Fund | Total General Fund |
| ASSETS | | | | |
| Cash and equivalents: | | | | |
| Unrestricted | \$ 242,920 | \$1,494,091 | \$... | \$1,737,011 |
| Restricted | 8,991 | 97,033 | ... | 106,024 |
| Accounts receivable: | | | | |
| Food service customers | ... | 168 | ... | 168 |
| Other | ... | 418 | ... | 418 |
| Due from other governments | ... | 19,161 | 6,405 | 25,566 |
| Due from component unit | ... | 11,960 | ... | 11,960 |
| Prepayments and other assets | ... | 24,410 | ... | 24,410 |
| TOTAL ASSETS | \$ 251,911 | \$1,647,241 | \$ 6,405 | \$1,905,557 |
| LIABILITIES | | | | |
| Accounts payable | \$ 105,552 | \$ 30,317 | \$ 6,405 | \$ 142,274 |
| Accrued salaries and related costs | 182,206 | ... | ... | 182,206 |
| Due to other governments | ... | ... | ... | ... |
| Total liabilities | 287,758 | 30,317 | 6,405 | 324,480 |
| FUND BALANCES (DEFICIT) | | | | |
| Nonspendable: | | | | |
| Prepayments and other assets | ... | 24,410 | ... | 24,410 |
| Restricted-specific programs | 8,991 | 97,033 | ... | 106,024 |
| Committed-encumbered | 241,501 | ... | ... | 241,501 |
| Unassigned | (286,339) | 1,495,481 | ... | 1,209,142 |
| Total fund balances | (35,847) | 1,616,924 | ... | 1,581,077 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 251,911 | \$1,647,241 | \$ 6,405 | \$1,905,557 |

See Report of Independent Auditor

THOMAS A. EDISON CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GENERAL FUND
Year Ended June 30, 2013

| | 2013 | | | Total General Fund |
|--|--------------------|--------------------|------------------|--------------------------|
| | State Fund | Local Fund | Federal Fund | |
| REVENUES | | | | |
| Charges to school districts | \$... | \$2,768,268 | \$... | \$2,768,268 |
| State aid | 4,319,799 | 83,978 | ... | 4,403,777 |
| Federal aid | ... | 520,592 | 1,318,576 | 1,839,168 |
| Earnings on cash and equivalents | ... | 10,705 | ... | 10,705 |
| Food services fees | ... | 343 | ... | 343 |
| Program services fees | ... | 15,205 | ... | 15,205 |
| Miscellaneous revenues | ... | 19,455 | ... | 19,455 |
| Total revenues | <u>4,319,799</u> | <u>3,418,546</u> | <u>1,318,576</u> | <u>9,056,921</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries | 1,741,722 | 1,494,390 | 446,958 | 3,683,070 |
| Employment costs | 829,471 | 609,082 | 143,884 | 1,582,437 |
| Travel | ... | 6,171 | 20,282 | 26,453 |
| Contracted services | 102,444 | 86,459 | 213,349 | 402,252 |
| Communications | 3,671 | 16,234 | ... | 19,905 |
| Public utility services | 138,525 | 11,402 | ... | 149,927 |
| Insurance | 27,296 | 8,765 | ... | 36,061 |
| Transportation | 584,712 | ... | ... | 584,712 |
| Land/Building/Facilities | 292,922 | 23,345 | 8,500 | 324,767 |
| Repairs and maintenance | 352,894 | 45,056 | ... | 397,950 |
| Other contracted services | 22,708 | 12,090 | 115,253 | 150,051 |
| Supplies and materials | 8,732 | 83,450 | 190,568 | 282,750 |
| Operating supplies | 8,724 | 28,339 | 17,154 | 54,217 |
| Food services: | | | | |
| Food and other costs | ... | 560,690 | ... | 560,690 |
| Refund of prior years revenues | ... | 1,975 | ... | 1,975 |
| Capital outlay: | | | | |
| Building improvements | ... | 156,302 | ... | 156,302 |
| Equipment | 13,711 | 55,441 | 162,628 | 231,780 |
| Food services | ... | 3,710 | ... | 3,710 |
| Total expenditures | <u>4,127,532</u> | <u>3,202,901</u> | <u>1,318,576</u> | <u>8,649,009</u> |
| EXCESS (DEFICIT) REVENUES OVER EXPENDITURES | <u>192,267</u> | <u>215,645</u> | <u>...</u> | <u>407,912</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Refund of prior years expenditures | 55,846 | ... | 17,752 | 73,598 |
| Refund of prior years revenues | ... | (15,647) | ... | (15,647) |
| Total other financing sources (uses) | <u>55,846</u> | <u>(15,647)</u> | <u>17,752</u> | <u>57,951</u> |
| NET CHANGE IN FUND BALANCES | <u>248,113</u> | <u>199,998</u> | <u>17,752</u> | <u>465,863</u> |
| FUND BALANCES (DEFICIT) | | | | |
| Beginning of year | (258,817) | 1,415,837 | (41,806) | 1,115,214 |
| Interfund transfers | <u>(25,143)</u> | <u>1,089</u> | <u>24,054</u> | <u>...</u> |
| End of year | <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, 2013, 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 March 21, 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 opinion 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-01 and 2013-02 to be material weaknesses.

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 2013-03 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 response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Haggerty & Haggerty, P.A.
Certified Public Accountants

March 21, 2014
Wilmington, Delaware



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 Compliance with Requirements
that Could Have a Direct and Material Effect
on 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, 2013. 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, 2013.

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.

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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, 2013, 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 March 21, 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

March 21, 2014
Wilmington, Delaware

THOMAS A. EDISON CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED DISCLOSURES
Year Ended June 30, 2013

| 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 | \$ 161,985 |
| [1] National School Lunch Program [NSLP] | 10.555 | FSF-91100 | 322,797 |
| Fresh Fruit and Vegetable Program [FFVP] | 10.582 | FSF-91100 | <u>35,810</u> |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | <u>\$ 520,592</u> |
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed through State of Delaware, Department of Education [DOE]: | | | |
| [2] Title I Grants to Local Educational Agencies | 84.010 | FSF-40554 | \$ 520,853 |
| [3] Special Education-Grants to States [IDEA, Part B] | 84.027 | FSF-40564 | 128,974 |
| [3] Special Education-Preschool Grants [IDEA, Preschool] | 84.173 | FSF-40565 | 1,169 |
| Safe and Drug-Free Schools and Communities-State Grants [Title V, Part A] | 84.186A | FSF-40390 | 2,600 |
| Twenty-First Century Community Learning Centers | 84-287C | FSF-40240 | 332,114 |
| Improving Teacher Quality- State Grants | 84.367A | FSF-40114 | 77,228 |
| [2] Title I Grants to Local Educational Agencies, Recovery Act | 84.389A | FSF-41212 | 5,108 |
| State Fiscal Stabilization Fund [SFSF] Race-to-the-Top Incentive Grants, Recovery Act | 84.395 | FSF-40192 | <u>250,530</u> |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | <u>\$ 1,318,576</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 1,839,168</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.

THOMAS A. EDISON CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

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? yes X no
 • Significant deficiency(ies) identified? yes X 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 |
|--------------------|---|
| <u>[1] 10.553</u> | <u>School Breakfast Program [SBP]</u> |
| <u>[1] 10.555</u> | <u>National School Lunch Program [NSLP]</u> |
| <u>[2] 84.010</u> | <u>Title I Grants to Local Educational Agencies</u> |
| <u>[2] 84.389A</u> | <u>Title I Grants to Local Educational Agencies, Recovery Act</u> |
| <u>84.287C</u> | <u>Twenty-First Century Community Learning Centers</u> |

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 28.

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

None.

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 recommend 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."

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 recommend that the Human Resources Department of the School review every personnel file and update any and all missing forms, information, etc. We also recommend 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."

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 recommend 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."

SECTION II - FINDINGS-FINANCIAL STATEMENT AUDIT

12-1 CONTROLS OVER FINANCIAL REPORTING

Statement of Condition: During the audit, the predecessor auditor noted that the information provided to the School employees from the State of Delaware, via the State's online accounting software [FSF], made it difficult for the School to follow and ascertain useful information to generate an accurate trial balance.

Recommendation: The predecessor auditor recommended that the School work with the appropriate State employees to determine a method for obtaining the necessary data for accurate preparation of financial reports.

Current Status: The School has obtained the necessary understanding of the State accounting software to ascertain the financial data to prepare accurate financial reports.

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

**12-2 TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS
CFDA No. 84.287C: Period of April 15, 2010 to April 30, 2011**

Statement of Condition: The School did not have the appropriate documentation for one invoice selected.

Recommendation: The predecessor auditor recommended that in order to avoid the possibility of losing future funding, the School should review its policies and procedures regarding invoice submission.

Current Status: No new such occurrences were noted during the audit. No further action is warranted.