

Single Audit Report

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

Year Ended June 30, 2015



HAGGERTY & HAGGERTY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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

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HAGGERTY & HAGGERTY, P.A.
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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 year ended June 30, 2015, 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require a schedule of budgetary comparison information, a schedule of proportionate share of net pension liability, and a schedule of pension contributions, reflected on pages 24 to 26, 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 Supplementary 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 27 and 28 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 27 and 28 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Change in Accounting Principle

The School adopted Governmental Accounting Standards Board [GASB] Statements No. 68 and 71, *Accounting and Financial Reporting for Pensions, and Pension Transition for Contributions Made Subsequent to the Measurement Date*, which state that individual employers must report a proportionate share of the net pension liability and the pension expense on their financial statements, along with the related deferred outflows of resources and deferred inflows of resources, as applicable. Previously, employers only reported the annual contributions they made to the retirement system. The School has determined that changes made to comply with the Statement should be reported as an adjustment of prior periods. Therefore, the School has restated its June 30, 2014 financial statements. For more detail, refer to Note 12.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2015 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, the Delaware Department of Education, Office of the Governor, Office of Controller General, Office of the 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

August 31, 2015
Wilmington, Delaware

Basic Financial Statements Section

THOMAS A. EDISON CHARTER SCHOOL
STATEMENT OF NET POSITION
As of June 30, 2015

	2015	
	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Foundation</u>
ASSETS		
Current assets:		
Cash and equivalents	\$ 2,597,407	\$ 414,546
Accounts receivable:		
Other	1,195	...
Due from other governments	30,779	3,232
Restricted assets-replacement reserve:		
Cash and equivalents	...	21,261
Due from component unit	4,256	...
Total current assets	\$ 2,633,637	\$ 439,039
Noncurrent assets:		
Capital assets, net of depreciation:		
Nondepreciable	...	...
Depreciable	878,819	4,623,950
Mortgage financing costs, net	...	29,320
Total noncurrent assets	878,819	4,653,270
TOTAL ASSETS	3,512,456	5,092,309
DEFERRED OUTFLOWS OF RESOURCES		
Deferred contributions and changes in proportion related to pension activity	403,560	...
LIABILITIES		
Current liabilities:		
Accounts payable	88,988	120
Accrued salaries and related costs	254,105	...
Due to primary government	...	4,256
Mortgage note payable, current portion	...	200,033
Total current liabilities	343,093	204,409
Noncurrent liabilities:		
Compensated absences liability	110,007	...
Net pension liability	724,534	...
Mortgage note payable, net of current	...	1,133,906
Total noncurrent liabilities	834,541	1,133,906
TOTAL LIABILITIES	1,177,634	1,338,315
DEFERRED INFLOWS OF RESOURCES		
Deferred investment earnings related to pension activity	959,512	...
NET POSITION		
Net investment in capital assets	878,819	3,319,331
Restricted for specific programs	100,788	...
Unrestricted	799,263	434,663
TOTAL NET POSITION	\$ 1,778,870	\$ 3,753,994

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

THOMAS A. EDISON CHARTER SCHOOL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

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	\$ 6,407,376	\$ 23,065	\$ 1,453,900	\$...	\$ (4,930,411)	\$...
Supporting services:						
Operation and maintenance of facilities	947,440	...	...	...	(947,440)	...
Transportation	546,171	...	484,515	...	(61,656)	...
Food services	446,179	...	560,677	...	114,498	...
Depreciation-unallocated	210,687	...	...	...	(210,687)	...
TOTAL PRIMARY GOVERNMENT	8,557,853	23,065	2,499,092	...	(6,035,696)	...
DISCRETELY PRESENTED COMPONENT UNIT:						
Foundation	352,821	292,922	8,650	...	...	(51,249)
TOTAL PRIMARY GOVERNMENT AND COMPONENT UNIT	\$ 8,910,674	\$ 315,987	\$ 2,507,742	\$...	(6,035,696)	(51,249)
GENERAL REVENUES AND TRANSFERS						
Charges to school districts					2,661,091	...
State funding not restricted to specific purposes					3,954,337	...
Earnings on cash and equivalents					13,400	64
Miscellaneous revenues					22,441	...
Appropriations to component unit					(275,000)	275,000
Total general revenues and transfers					6,376,269	275,064
CHANGES IN NET POSITION					340,573	223,815
NET POSITION						
Beginning of year, as previously reported					3,101,202	3,530,179
Adjustment to opening net position [Note 12]					(1,662,905)	...
Beginning of year, as restated					<u>1,438,297</u>	<u>3,530,179</u>
End of year					\$ 1,778,870	\$ 3,753,994

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, 2015

	<u>2015</u>	
	<u>Governmental Funds</u>	
ASSETS		
Cash and equivalents	\$ 2,597,407	
Accounts receivable:		
Other	1,195	
Due from other governments	30,779	
Due from component unit	<u>4,256</u>	
TOTAL ASSETS		<u>\$ 2,633,637</u>
LIABILITIES		
Accounts payable	\$ 88,988	
Accrued salaries and related costs	254,105	
Due to other governments	<u>...</u>	
Total liabilities		\$ 343,093
FUND BALANCES		
Restricted-specific programs	100,788	
Committed-encumbered	33,905	
Unassigned	<u>2,155,851</u>	
Total fund balances		<u>2,290,544</u>
TOTAL LIABILITIES AND FUND BALANCES		<u>\$ 2,633,637</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, 2015

	<u>Governmental Funds</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Fund balances-total governmental funds	\$ 2,290,544
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements. At June 30, 2015, the total cost of capital assets is \$1,961,182, and the related accumulated depreciation is \$1,082,363.	878,819
Compensated absences are not due and payable for the period reported, and are therefore not reported in the fund financial statements.	(110,007)
Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:	
Net pension liability	(724,534)
Deferred outflows and inflows or resources related to pension activity are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pension activity of \$403,560 consists of \$49,299 of deferred outflows of resources pension expense and \$354,261 of deferred outflow of 2015 employer contributions related to the pension.	403,560
Deferred inflows of resources related to pension activity.	<u>(959,512)</u>
Net position-governmental activities	<u>\$ 1,778,870</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, 2015

	<u>2015</u>
	<u>Governmental Funds</u>
REVENUES	
Charges to school districts	\$ 2,661,091
State funding-allocation	4,438,852
State funding-other	265,443
Federal funding	1,749,134
Earnings on cash and equivalents	13,400
Program services fees	23,065
Miscellaneous revenues	<u>22,441</u>
Total revenues	\$ 9,173,426
EXPENDITURES	
Current:	
Instructional services	6,718,561
Supporting services:	
Operation and maintenance of facilities	947,440
Transportation	546,171
Food services	446,179
Capital outlay	<u>88,245</u>
Total expenditures	<u>8,746,596</u>
EXCESS REVENUES OVER EXPENDITURES	426,830
OTHER FINANCING SOURCES (USES)	
Refund of prior years expenditures	...
Refund of prior years revenues	...
Appropriations to component unit	<u>(275,000)</u>
Total other financing sources (uses)	<u>(275,000)</u>
NET CHANGE IN FUND BALANCES	151,830
FUND BALANCES	
Beginning of year	<u>2,138,714</u>
End of year	<u>\$ 2,290,544</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, 2015

Governmental
Funds

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

Net change in fund balances-total governmental funds \$ 151,830

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	\$ 15,846	
Depreciation expense	<u>(210,687)</u>	(194,841)

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 decreased by \$1,165 for the period presented.

1,165

Governmental funds report School pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

<u>Description</u>	<u>Amount</u>	
School pension contributions- fiscal year 2015	\$ 354,261	
Cost of the benefits earned net of contributions [pension expense]	<u>28,158</u>	<u>382,419</u>

Change in net position-governmental activities \$ 340,573

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, 2015

Student Activities Fund

ASSETS

Cash and equivalents \$ 10,017

LIABILITIES

Due to student groups \$ 10,017
Due to other groups

TOTAL LIABILITIES \$ 10,017

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

NOTE 1 - NATURE OF THE GOVERNMENT

Thomas A. Edison Charter School is organized under Title 14, Chapter 5 of the State of Delaware Code. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they cannot levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations.

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

NOTE 2 - 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. Significant accounting policies of the School are as follows:

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 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.

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 both governmental funds and the fiduciary fund, even though the fiduciary fund is excluded from the government-wide financial statements.

NOTE 2 - 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 financial statements of the fiduciary fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 School management and accordingly, no provision for bad debts has been reflected for the year presented.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables and Payables

Activities between the 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, 2015, the School has 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 made to vendors for services [e.g., insurance, rents, etc.] that will benefit periods beyond the current period are recorded as prepayments and other assets using the consumption method by recording an asset for the prepaid amount and reflecting the expenditure/expense in the period in which services are consumed. At the fund reporting level, an equal amount of fund balance is classified as nonspendable, as this amount is not available for general appropriation.

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 year presented.

NOTE 2 - 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 note [20 years] using the straight-line method. At June 30, 2015, the accumulated amortization is \$78,943.

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 when the amount has 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 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.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources [expense/expenditure] until that period. The School has one item that qualifies for reporting in this category. This item is deferred contributions and changes in proportion related to the School's pension activity. The amount is reported in the statement of net position and is deferred and amortized over a six year period.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources [revenue] until that time. The School has one item that qualifies for reporting in this category; that item is the deferred investment earnings related to pension activity. This item is reported only in the statement of net position. These amounts are deferred and recognized as an inflow from resources in the period that the amounts become available.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position and Fund Equity

The net position, in the government-wide financial statements, 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 the 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 includes 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 3 - CASH AND EQUIVALENTS

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

Deposits Held by the State of Delaware

At June 30, 2015, the School has cash and equivalents of \$2,607,424. 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, 2015, the reported amount of deposits maintained by the **component unit** outside of the State Treasurer's Office is \$435,807 [book value of \$414,546 and \$21,261]. The deposits held by the one financial institution totaling \$435,807 were in excess of the Federal Deposit Insurance Corporation [FDIC] limits in the amount of \$185,807.

NOTE 4 - 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. The premium payments for the insurance policies are recorded as expenditures/expenses of the School; and the insurance settlements did not exceed insurance coverage.

THOMAS A. EDISON CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - 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	22,070
Federal government-Department of Education	8,709
Total intergovernmental receivables	<u>30,779</u>
Less: Allowance for doubtful accounts	<u> ...</u>
Total amount due from other governments	<u>\$ 30,779</u>
Component unit:	
State of Delaware Division of Social Services	<u>\$ 3,232</u>

NOTE 6 - CAPITAL ASSETS

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

Description	As of and Year Ended June 30, 2015			
	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets, being depreciated:				
Leasehold improvements	\$ 828,598	\$ 9,982	\$...	\$ 838,580
Furniture and equipment	1,116,738	5,864	...	1,122,602
Totals	<u>1,945,336</u>	<u>15,846</u>	<u>...</u>	<u>1,961,182</u>
Less accumulated depreciation:				
Leasehold improvements	141,894	50,016	...	191,910
Furniture and equipment	729,782	160,671	...	890,453
Totals	<u>871,676</u>	<u>210,687</u>	<u>...</u>	<u>1,082,363</u>
Governmental activities capital assets, net	<u>\$1,073,660</u>	<u>\$ (194,841)</u>	<u>\$...</u>	<u>\$ 878,819</u>
Component unit:				
Capital assets, being depreciated:				
Leasehold improvements	\$7,500,449	\$...	\$...	\$7,500,449
Less accumulated depreciation:				
Leasehold improvements	2,684,179	192,320	...	2,876,499
Component unit capital assets, net	<u>\$4,816,270</u>	<u>\$ (192,320)</u>	<u>\$...</u>	<u>\$4,623,950</u>

NOTE 7 - LONG-TERM DEBT OBLIGATIONS

The following table summarizes the changes in long-term obligations:

Description	As of and Year Ended June 30, 2015				
	Long-Term Obligations				Due
	Beginning Balance	Additions	Deletions	Ending Balance	Within One Year
Governmental activity:					
Other long-term debt:					
Compensated absences	<u>\$ 111,172</u>	<u>\$...</u>	<u>\$ 1,165</u>	<u>\$ 110,007</u>	<u>\$...</u>

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

NOTE 7 - LONG-TERM DEBT OBLIGATIONS (continued)

On December 12, 2000, the **component unit** 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. The mortgage note obligation maturities, including interest, are as follows:

Years Ending June 30	Principal	Interest	Total
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	269,443	23,479	292,922
2021	<u>166,699</u>	<u>4,287</u>	<u>170,986</u>
Total mortgage note obligation	1,333,939	301,657	1,635,596
Less: Current portion	<u>200,033</u>	<u>92,889</u>	<u>292,922</u>
Long-term portion	<u>\$1,133,906</u>	<u>\$ 208,768</u>	<u>\$1,342,674</u>

NOTE 8 - 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. Thereafter, the lessee shall have the right and option to extend the term of this lease for five consecutive extended terms of ten years each [the "extended terms"] unless and until this lease shall be sooner terminated. 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, 2015, 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
2016	\$ 20,000
2017	20,000
2018	20,000
2019	20,000
2020	20,000
2021-2024	<u>125,000</u>
Minimum future rental payments required	<u>\$ 225,000</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 year ended June 30, 2015.

NOTE 9 - PENSION PLAN

The School's pension plan is part of the State Employees' Pension Plan [the Plan] which is a cost sharing multiple-employer defined benefit pension plan established in the Delaware Code. The State of Delaware General Assembly is responsible for setting benefits and contributions and amending the Plan's provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees [the Board]. The management of the Plan is the responsibility of the Board, which is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two exofficio members. The daily operation is the responsibility of the Delaware Office of Pensions. Although most of the assets of the Plan are commingled with other plans for investment purposes, the Plan's assets may be used only for the payment of benefits to the members of the Plan in accordance with the terms of the Plan. The following is a brief description of the Plan in effect at June 30, 2015. For a more complete description, refer to the Delaware Public Employee's Retirement System [DPERS] CAFR.

Separately issued financial statements for [DPERS] are available from the Delaware pension office at: Mc Ardle Building, Suite 1; 860 Silver Lake Boulevard; Dover, Delaware 19904.

General Information About the Plan

Plan Description and Eligibility: The State Employees' Pension Plan covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities such as the School. There are two tiers within the Plan: 1) Employees hired prior to January 1, 2012 [Pre-2012], and 2) Employees hired on or after January 1, 2012 [Post-2011].

Service Benefits: Final average monthly compensation [employee hired Post-2011 may not include overtime in pension compensation] multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997, plus final average monthly compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For the Plan, final average monthly compensation is the monthly average of the highest three periods of 12 consecutive months of compensation.

Vesting: Pre-2012 date of hire: 5 years of credited service. Post-2011 date of hire: 10 years of credited service.

Retirement: Pre-2012 date of hire: age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age. Post-2011 date of hire: age 65 with at least 10 years of credited service; age 60 with 20 years of credited service; and 30 years of credited service at any age.

Disability Benefits: Pre-2012 date of hire: same as Service Benefits. The employee must have 5 years of credited service. In lieu of disability pension benefits, over 90% of the members of the Plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Post-2011 date of hire - in the Disability Insurance Program.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension [or 75% with 3% reduction of benefit]; if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.

Burial Benefit: \$7,000 per member.

Contributions:

- Employer: Determined by the Board. Employer contributions were 9.5% and 8.9% of earnings for fiscal years 2014 and 2013, respectively.
- Pre-2012 date of hire Member: 3% of earnings in excess of \$6,000.
- Post-2011 date of hire Member: 5% of earnings in excess of \$6,000.

NOTE 9 - PENSION PLAN (continued)

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

At June 30, the School reported a pension liability of \$724,534 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on a projection of the School's long-term share of contributions to the pension plan relative to the total projected contributions of the State and all participating schools, actuarially determined. At June 30, 2014, the School's proportion was 0.1968 percent, which was an increase of 0.0066 percent from its proportion measured as of June 30, 2013.

As a result of its requirement to contribute to DPERS, the School recognized pension expense of \$28,158 for the year ended June 30, 2015. At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement to contribute to DPERS:

Description	Deferred Resources	
	Outflows	Inflows
Differences between expected and actual experience	\$...	\$...
Changes of assumptions	...	...
Net difference between projected and actual earnings on pension plan investments	...	959,512
Contributions subsequent to measurement date	354,261	...
Change in proportion and differences between School contributions and proportionate share of contributions	49,299	...
Totals	\$ 403,560	\$ 959,512

\$354,261 reported as deferred outflows of resources related to the pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Years Ending June 30	Amount
2016	\$ 182,043
2017	182,043
2018	182,043
2019	182,043
2020	182,041
Total	\$ 910,213

NOTE 9 - PENSION PLAN (continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (continued)

Actuarial assumptions: The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Description	Percentages
Inflation	3.00%
Projected salary increases	3.50% to 11.50%, including inflation
Investment rate of return	7.20%, net of pension plan investment expense, including inflation
Cost-of-living adjustments	Ad hoc

Mortality rates were based on the Sex distinct RP-2000 combined Mortality Table projected to 2015 using scale AA for Males and Females, as appropriate, for mortality improvement.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return [expected returns, net of investment expense and inflation] are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected Plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's current and expected asset allocation is summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	5.70%
International equity	5.70%
Fixed income	2.00%
Alternative investments	7.80%
Cash and equivalents	0.00%

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

NOTE 9 - PENSION PLAN (continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (continued)

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate: The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.20%, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Plan	1% Decrease [6.20%]	Current Discount Rate [7.20%]	1% Increase [8.20%]
Employees of Thomas A. Edison Charter School	\$ 2,715,751	\$ 724,534	\$ (958,237)

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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

Government Awards

The School participates in certain state and local awards not subject to the audit requirements of OMB Circular A-133. These awards may be subjected to oversight audits by the grantors and/or their representatives. No audits of these grant awards have been conducted as of June 30, 2015. Accordingly, the School's compliance with applicable award requirements will be established at some future date. The amount of costs which may be disallowed by these agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial to the financial statements.

Government Awards Subject to OMB A-133

The School participates in certain federal grant awards subject to the audit requirements of OMB Circular A-133. A compliance audit of the federal grant awards has been conducted as of and for the year ended June 30, 2015. The compliance audit did not identify any questioned costs; however, questioned costs may exist which have not been identified. The amount of costs not identified which could be disallowed by federal agencies at some future date cannot be determined at this time although the School expects such amounts, if any, to be immaterial to the financial statements.

Leasing Arrangements

The School along with its component unit is committed to certain leasing arrangements [refer to Note 8 for more detail].

NOTE 11 - GASB STATEMENT IMPLEMENTATION

The School has implemented GASB Statements No. 68 and 71, *Accounting for Financial Reporting for Pensions*, and *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The Statements' primary objective is to improve accounting and financial reporting by state and local governments for pensions. The implementation of the Statements resulted in a reduction of net position by \$1,662,905 at June 30, 2014.

The School has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The Statement's objective is to improve financial reporting by [1] clarifying the definition of fair value for financial reporting purposes, [2] establishing general principles for measuring fair value, [3] providing additional fair value application guidance, and [4] enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature.

NOTE 12 - RESTATEMENT OF BEGINNING NET POSITION

Net position of the School has been decreased by \$1,662,905 at June 30, 2014 resulting from the implementation of GASB Statement No. 68 [see Note 11].

NOTE 13 - 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.

Required Supplementary 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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Charges to school districts	\$ 2,715,000	\$ 2,715,000	\$ 2,661,091	\$ (53,909)
State funding-allocation	4,285,000	4,285,000	4,438,852	153,852
State funding-other	220,000	220,000	265,443	45,443
Federal funding-education	1,066,971	1,066,971	1,188,457	121,486
Federal funding-food service	500,000	500,000	560,677	60,677
Earnings on cash and equivalents	9,000	9,000	13,400	4,400
Program services fees	60,000	60,000	23,065	(36,935)
Miscellaneous revenues	12,000	12,000	22,441	10,441
Total revenues	8,867,971	8,867,971	9,173,426	305,455
EXPENDITURES				
Current:				
Salaries	3,895,861	3,895,861	3,952,141	(56,280)
Employment costs	1,822,873	1,822,873	1,744,031	78,842
Travel	47,000	47,000	18,052	28,948
Contracted services	319,795	319,795	430,031	(110,236)
Communications	20,700	20,700	20,445	255
Public utility services	168,000	168,000	154,405	13,595
Insurance	44,000	44,000	27,471	16,529
Transportation	590,000	590,000	546,171	43,829
Land/Building/Facilities	312,922	312,922	325,010	(12,088)
Repairs and maintenance	432,146	432,146	440,554	(8,408)
Other contracted services	150,400	150,400	158,683	(8,283)
Supplies and materials	220,000	220,000	230,578	(10,578)
Operating supplies	107,000	107,000	164,600	(57,600)
Food services	550,000	550,000	446,179	103,821
Contingencies	139,000	139,000	...	139,000
Capital outlay	37,000	37,000	88,245	(51,245)
Total expenditures	8,856,697	8,856,697	8,746,596	110,101
EXCESS REVENUES OVER EXPENDITURES	11,274	11,274	426,830	415,556
OTHER FINANCING SOURCES (USES)				
Refund of prior years expenditures	...	...	...	...
Refund of prior years revenues	...	...	...	...
Appropriations to component unit	...	...	(275,000)	(275,000)
Total other financing sources (uses)	...	...	(275,000)	(275,000)
NET CHANGE IN FUND BALANCES	11,274	11,274	151,830	140,556
FUND BALANCES				
Beginning of year	...	...	2,138,714	2,138,714
End of year	\$ 11,274	\$ 11,274	\$ 2,290,544	\$ 2,279,270

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

THOMAS A. EDISON CHARTER SCHOOL
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Year Ended June 30, 2015

	<u>2015</u>
School's proportion of net pension liability (asset)	<u>0.1968%</u>
School's proportionate share of net pension liability (asset)	<u>\$ 724,534</u>
School's covered-employee payroll	<u>\$ 3,794,866</u>
School's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll	<u>19.09%</u>
Plan's fiduciary net position as percentage of total pension liability	<u>95.80%</u>

See Report of Independent Auditor

THOMAS A. EDISON CHARTER SCHOOL
SCHEDULE OF PENSION CONTRIBUTIONS
Year Ended June 30, 2015

	<u>2015</u>
Contractually required contribution	\$ 354,261
Contributions in relation to contractually required contribution	<u>354,261</u>
Annual contribution (deficiency) excess	<u>\$...</u>
School covered-employee payroll	<u>\$ 3,932,693</u>
Contributions as percentage of covered-employee payroll	<u>9.01%</u>

See Report of Independent Auditor

Supplementary Information Section

THOMAS A. EDISON CHARTER SCHOOL
BALANCE SHEET-GENERAL FUND
As of June 30, 2015

	2015			
	State Fund	Local Fund	Federal Fund	Total General Fund
ASSETS				
Cash and equivalents:				
Unrestricted	\$ 33,905	\$2,462,714	\$...	\$2,496,619
Restricted	10	100,778	...	100,788
Accounts receivable:				
Other	...	1,195	...	1,195
Due from other governments	...	22,070	8,709	30,779
Due from component unit	...	4,256	...	4,256
TOTAL ASSETS	<u>\$ 33,915</u>	<u>\$2,591,013</u>	<u>\$ 8,709</u>	<u>\$2,633,637</u>
LIABILITIES				
Accounts payable	\$ 39,866	\$ 40,413	\$ 8,709	\$ 88,988
Accrued salaries and related costs	254,105	...	...	254,105
Due to other governments	...	...	...	...
Total liabilities	<u>293,971</u>	<u>40,413</u>	<u>8,709</u>	<u>343,093</u>
FUND BALANCES (DEFICIT)				
Restricted-specific programs	10	100,778	...	100,788
Committed-encumbered	33,905	...	...	33,905
Unassigned	(293,971)	2,449,822	...	2,155,851
Total fund balances	<u>(260,056)</u>	<u>2,550,600</u>	<u>...</u>	<u>2,290,544</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 33,915</u>	<u>\$2,591,013</u>	<u>\$ 8,709</u>	<u>\$2,633,637</u>

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, 2015

	2015			Total General Fund
	State Fund	Local Fund	Federal Fund	
REVENUES				
Charges to school districts	\$...	\$2,661,091	\$...	\$2,661,091
State funding-allocation	4,438,852	...	...	4,438,852
State funding-other	143,860	121,583	...	265,443
Federal funding	...	560,677	1,188,457	1,749,134
Earnings on cash and equivalents	...	13,400	...	13,400
Program services fees	...	23,065	...	23,065
Miscellaneous revenues	...	22,441	...	22,441
Total revenues	<u>4,582,712</u>	<u>3,402,257</u>	<u>1,188,457</u>	<u>9,173,426</u>
EXPENDITURES				
Current:				
Salaries	2,086,958	1,323,381	541,802	3,952,141
Employment costs	971,225	565,885	206,921	1,744,031
Travel	...	20	18,032	18,052
Contracted services	131,825	74,940	223,266	430,031
Communications	4,127	16,318	...	20,445
Public utility services	154,405	...	...	154,405
Insurance	27,471	...	...	27,471
Transportation	400,000	138,311	7,860	546,171
Land/Building/Facilities	292,922	21,382	10,706	325,010
Repairs and maintenance	352,813	87,741	...	440,554
Other contracted services	80,739	17,879	60,065	158,683
Supplies and materials	110,267	24,809	95,502	230,578
Operating supplies	14,061	139,896	10,643	164,600
Food services costs	...	446,179	...	446,179
Capital outlay:				
Building improvements	...	...	...	...
Equipment	22,089	50,497	13,660	86,246
Food services	...	1,999	...	1,999
Total expenditures	<u>4,648,902</u>	<u>2,909,237</u>	<u>1,188,457</u>	<u>8,746,596</u>
EXCESS (DEFICIT) REVENUES OVER EXPENDITURES	<u>(66,190)</u>	<u>493,020</u>	<u>...</u>	<u>426,830</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior years expenditures	...	...	...	...
Refund of prior years revenues	...	...	...	...
Appropriations to component unit	...	(275,000)	...	(275,000)
Total other financing sources (uses)	<u>...</u>	<u>(275,000)</u>	<u>...</u>	<u>(275,000)</u>
NET CHANGE IN FUND BALANCES	<u>(66,190)</u>	<u>218,020</u>	<u>...</u>	<u>151,830</u>
FUND BALANCES (DEFICIT)				
Beginning of year	<u>(193,866)</u>	<u>2,332,580</u>	<u>...</u>	<u>2,138,714</u>
End of year	<u>\$ (260,056)</u>	<u>\$2,550,600</u>	<u>\$...</u>	<u>\$2,290,544</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
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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, 2015, 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 August 31, 2015.

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.

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

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

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*.

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

August 31, 2015
Wilmington, Delaware



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**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, 2015. 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, 2015.

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)

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, 2015, 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 August 31, 2015, 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 as a whole.

Haggerty & Haggerty, P.A.
Certified Public Accountants

August 31, 2015
Wilmington, Delaware

THOMAS A. EDISON CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED DISCLOSURES

Year Ended June 30, 2015

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	\$ 175,845
[1] National School Lunch Program [NSLP]	10.555	FSF-91100	352,955
Fresh Fruit and Vegetable Program [FFVP]	10.582	FSF-91100	31,877
Children Nutrition Discretionary Grants Limited Availability	10.579	FSF-40411	<u>13,660</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 574,337</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	\$ 671,095
Special Education-Grants to States [IDEA, Part B]	84.027	IDEA FSF-40564	120,010
Twenty-First Century Community Learning Centers	84-287C	21 T CCLC FSF-40240	188,179
Improving Teacher Quality- State Grants	84.367A	TITLE II FSF-40114	<u>195,513</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 1,174,797</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,749,134</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 2 of the School's 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 2 of the 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? yes X no
- Significant deficiency(ies) identified? yes X 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
10.553	School Breakfast Program [SBP]
10.555	National School Lunch Program [NSLP]
84.010	Title I Grants to Local Educational Agencies

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

None reported.

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 recommended 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."

Current Status

Our audit procedures noted no new occurrences. No further action is warranted at this time.

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 recommended 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."

Current Status

Management has implemented the recommendation; and we noted no new occurrences during the audit. No further action is warranted at this time.

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; and we noted no new occurrences during the audit. No further action is warranted 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 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 and has made substantial improvements; however, our audit procedures revealed that the personnel files did not contain a current certificate/license for 22 out of 27 teachers tested. We expanded our procedures to include confirmation of the existence of the certificate/license for the teachers with the State's DEEDS website.

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

None reported or outstanding.

Management Letter

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

Year Ended June 30, 2015



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Management Letter

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

In planning and performing our audit of the financial statements of Thomas A. Edison Charter School [a component unit of the State of Delaware] for the year ended June 30, 2015, we considered the School's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control.

During our audit of the financial statements we became aware of certain matters that are opportunities for strengthening internal control and increasing operating efficiency. The memorandum that accompanies this letter summarizes our findings and recommendations regarding such matters. A separate report dated August 31, 2015 contains our report on reportable deficiencies in the School's internal control. This letter does not affect our report on the School's financial statements, dated August 31, 2015.

The matters noted are only those that came to our attention and, had our procedures for internal control related matters been more extensive, other matters might have been noted. Also, the functioning of the internal control was assessed at a point in time, and no assurances can be drawn that the internal control is functioning or will continue to function beyond the point in time at which it was assessed. No opinion is being expressed regarding the internal controls taken as a whole.

We will review the status of these findings during our next audit engagement. These findings have been discussed with School personnel and we are pleased to discuss the findings in further detail at your convenience, to perform additional studies, or assist in the implementation of the recommendations.

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

August 31, 2015
Wilmington, Delaware

LIST OF FINDINGS FOLLOWS:

<u>Current Findings</u>	<u>Description</u>
-------------------------	--------------------

None reported.

Status of Prior Years' Findings

June 30, 2014:

1	Charitable Contributions
2	PCard Documentation
3	Classification of Expenditures

June 30, 2013:

1	Asset Capitalization Policy
2	Accounts Payable Function
4	Leasing Arrangement

STATUS OF PRIOR YEARS' FINDINGS

June 30, 2014:

Finding 1 - Charitable Contributions

Our review of the School's contributions revenue revealed that written acknowledgments of the donations received do not contain the disclosure required by IRS regulations.

Recommendation

We recommended that School officials familiarize themselves with IRS Publication 1771 regarding written acknowledgments required to substantiate charitable contributions of \$250 or more.

Status of Finding

The finding is resolved.

Finding 2 - PCard Documentation

Our procedures revealed that certain PCard purchases did not have the appropriate documentation.

Recommendation

We recommended that School officials review the State of Delaware *Budget and Accounting Policy*, Chapter 12, Section 12.4 regarding supporting documentation rules.

Status of Finding

The finding is resolved.

Finding 3 - Classification of Expenditures

Our procedures regarding cash disbursements revealed that transfers to the School's component unit are misclassified as expenditures.

Recommendation

We recommended that these disbursements be classified as transfers and not expenditures, so as to not distort the annual per pupil cost calculation.

Status of Finding

The finding remains unresolved.

STATUS OF PRIOR YEARS' FINDINGS (continued)

June 30, 2013:

Finding 1 - Asset Capitalization Policy

Our procedures regarding capital assets revealed that the School is not implementing the capitalization policy as disclosed in the School's financial statements.

Recommendation

We recommended that the School revisit its asset capitalization policy and determine whether to retain the policy as is or modify the policy in accordance with the School's current application.

Status of Finding

The finding is resolved.

Finding 2 - Accounts Payable Function

Our procedures regarding the accounts payable function revealed that a significant number of payables are not paid within a 30-day cycle. As a result of late payment, the School is incurring late fees and risks damaging its reputation with vendors.

Recommendation

We recommended that the School make every effort to pay its vendors within the normal 30-day cycle.

Status of Finding

The finding remains unresolved.

Finding 4 - Leasing Arrangement

Our review of the leasing arrangement between the School and the Foundation revealed the following:

- School payments to the Foundation are in excess of the executed leasing arrangement.
- The Phase V annual payment is being paid by the School on behalf of the Foundation. **[Resolved]**

Recommendation

We recommended the School, in order to maintain proper segregation, perform the following:

- Revisit the leasing arrangement to determine the discrepancies in the rental payments.
- Determine whether the Phase V annual lease payment should be paid by the Foundation, and if so, whether the School should reimburse the Foundation for said payment. **[Resolved]**

Status of Finding

The recommendation regarding excess payments of the executed lease remains unresolved.