

Single Audit Report

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

Years Ended June 30, 2016 and 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 years ended June 30, 2016 and 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, 2016 and 2015, and the respective changes in financial position for the years 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2016 on our consideration of Thomas A. Edison Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering Thomas A. Edison Charter School's internal control over financial reporting and compliance.

Restriction on Use

This report is intended solely for the information and use of management, the Finance Committee, School Board, others within the School, Delaware Department of Education, Office of the Governor, Office of the 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 29, 2016
Wilmington, Delaware

Basic Financial Statements Section

THOMAS A. EDISON CHARTER SCHOOL
 STATEMENTS OF NET POSITION
 As of June 30, 2016 and 2015

| | 2016 | | 2015 | |
|--|---------------------------------------|---------------------------------|---------------------------------------|---------------------------------|
| | Primary Governmental Activities | Component Unit Foundation | Primary Governmental Activities | Component Unit Foundation |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and equivalents | \$ 2,659,969 | \$ 435,609 | \$ 2,597,407 | \$ 414,546 |
| Receivables-other | 2,720 | ... | 1,195 | ... |
| Due from other governments | 16,144 | 6,411 | 30,779 | 3,232 |
| Prepayments and other assets | 109,801 | 560 | ... | ... |
| Restricted assets-replacement reserve: | | | | |
| Cash and equivalents | ... | 21,325 | ... | 21,261 |
| Due from component unit | 19,194 | ... | 4,256 | ... |
| Total current assets | <u>2,807,828</u> | <u>463,905</u> | <u>2,633,637</u> | <u>439,039</u> |
| Noncurrent assets: | | | | |
| Capital assets, net of depreciation: | | | | |
| Construction in progress | ... | 298,950 | ... | ... |
| Depreciable | 702,369 | 4,431,630 | 878,819 | 4,623,950 |
| Mortgage financing costs, net | ... | 23,906 | ... | 29,320 |
| Total noncurrent assets | <u>702,369</u> | <u>4,754,486</u> | <u>878,819</u> | <u>4,653,270</u> |
| TOTAL ASSETS | <u>3,510,197</u> | <u>5,218,391</u> | <u>3,512,456</u> | <u>5,092,309</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred contributions and changes in proportion related to pension activity | 401,095 | ... | 403,560 | ... |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 77,782 | 20,000 | 88,988 | 120 |
| Contract payable | ... | 64,899 | ... | ... |
| Accrued salaries and related costs | 304,075 | ... | 254,105 | ... |
| Due to primary government | ... | 19,194 | ... | 4,256 |
| Mortgage note payable, current portion | ... | 215,498 | ... | 200,033 |
| Total current liabilities | <u>381,857</u> | <u>319,591</u> | <u>343,093</u> | <u>204,409</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences liability | 99,719 | ... | 110,007 | ... |
| Net pension liability | 1,321,860 | ... | 724,534 | ... |
| Mortgage note payable, net of current | ... | 918,408 | ... | 1,133,906 |
| Total noncurrent liabilities | <u>1,421,579</u> | <u>918,408</u> | <u>834,541</u> | <u>1,133,906</u> |
| TOTAL LIABILITIES | <u>1,803,436</u> | <u>1,237,999</u> | <u>1,177,634</u> | <u>1,338,315</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred investment earnings related to pension activity | 361,514 | ... | 959,512 | ... |
| NET POSITION | | | | |
| Net investment in capital assets | 702,369 | 3,620,580 | 878,819 | 3,319,331 |
| Restricted for specific programs | 101,847 | ... | 100,788 | ... |
| Unrestricted | 942,126 | 359,812 | 799,263 | 434,663 |
| TOTAL NET POSITION | <u>\$ 1,746,342</u> | <u>\$ 3,980,392</u> | <u>\$ 1,778,870</u> | <u>\$ 3,753,994</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, 2016

| | Functions | | Program Revenues | | Net (Expense) Revenue & Changes in Net Position | |
|--|---------------------|----------------------|----------------------|-----------------------|---|---------------------|
| | Expenses | Charges for Services | Grants and Operating | Contributions Capital | Governmental Activities | Component Unit |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| Instructional services | \$ 6,681,249 | \$ 21,085 | \$ 1,236,559 | \$... | \$ (5,423,605) | \$... |
| Supporting services: | | | | | | |
| Operation and maintenance of facilities | 1,234,120 | ... | ... | ... | (1,234,120) | ... |
| Transportation | 632,406 | ... | 454,304 | ... | (178,102) | ... |
| Food services | 538,736 | ... | 600,417 | ... | 61,681 | ... |
| Depreciation-unallocated | 187,450 | ... | ... | ... | (187,450) | ... |
| TOTAL PRIMARY GOVERNMENT | 9,273,961 | 21,085 | 2,291,280 | ... | (6,961,596) | ... |
| DISCREETELY PRESENTED COMPONENT UNIT: | | | | | | |
| Foundation | 346,651 | 567,922 | 5,063 | ... | ... | 226,334 |
| TOTAL PRIMARY GOVERNMENT AND COMPONENT UNIT | \$ 9,620,612 | \$ 589,007 | \$ 2,296,343 | \$... | (6,961,596) | 226,334 |
| GENERAL REVENUES AND TRANSFERS | | | | | | |
| Charges to school districts | | | | | 2,806,413 | ... |
| State funding not restricted to specific purposes | | | | | 4,075,428 | ... |
| Earnings on cash and equivalents | | | | | 21,051 | 64 |
| Miscellaneous revenues | | | | | 26,176 | ... |
| Appropriations to component unit | | | | | 6,929,068 | 64 |
| Total general revenues and transfers | | | | | (32,528) | 226,398 |
| CHANGES IN NET POSITION | | | | | | |
| NET POSITION | | | | | | |
| Beginning of year | | | | | 1,778,870 | 3,753,994 |
| End of year | | | | | \$ 1,746,342 | \$ 3,980,392 |

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 | | Program Revenues | | Net (Expense) Revenue & Changes in Net Position | |
|--|---------------------|----------------------|------------------------------------|---------------|---|---------------------|
| | Expenses | Charges for Services | Grants and Contributions Operating | Capital | 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) | ... |
| 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 11] | | | | | (1,662,905) | ... |
| Beginning of year, as restated | | | | | 1,438,297 | 3,530,179 |
| 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 SHEETS-GOVERNMENTAL FUNDS
 As of June 30, 2016 and 2015

| | Governmental Funds | |
|--|----------------------------|----------------------------|
| | 2016 | 2015 |
| ASSETS | | |
| Cash and equivalents | \$ 2,659,969 | \$ 2,597,407 |
| Receivables-other | 2,720 | 1,195 |
| Due from other governments | 16,144 | 30,779 |
| Due from component unit | 19,194 | 4,256 |
| Prepayments and other assets | <u>109,801</u> | <u>...</u> |
| TOTAL ASSETS | <u>\$ 2,807,828</u> | <u>\$ 2,633,637</u> |
| LIABILITIES | | |
| Accounts payable | \$ 77,782 | \$ 88,988 |
| Accrued salaries and related costs | 304,075 | 254,105 |
| Due to other governments | <u>...</u> | <u>...</u> |
| Total liabilities | <u>381,857</u> | <u>343,093</u> |
| FUND BALANCES | | |
| Nonspendable-prepayments and other assets | 109,801 | ... |
| Restricted-specific programs | 101,847 | 100,788 |
| Committed-encumbered | 56,495 | 33,905 |
| Unassigned | <u>2,157,828</u> | <u>2,155,851</u> |
| Total fund balances | <u>2,425,971</u> | <u>2,290,544</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 2,807,828</u> | <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 SHEETS OF GOVERNMENTAL FUNDS
 TO THE STATEMENTS OF NET POSITION
 As of June 30, 2016 and 2015

| | Governmental Funds | |
|--|---------------------|---------------------|
| | 2016 | 2015 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Fund balances-total governmental funds | \$ 2,425,971 | \$ 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, 2016 and 2015, the total cost of capital assets is \$1,972,182 and \$1,961,182, and related accumulated depreciation is \$1,269,813 and \$1,082,363, respectively. | 702,369 | 878,819 |
| Compensated absences are not due and payable for the period reported, and are therefore not reported in the fund financial statements. | (99,719) | (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 | (1,321,860) | (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 \$401,095 and \$403,560 consist of \$52,192 and \$49,299 of deferred outflows of resources pension expense and \$348,903 and \$354,261 of deferred outflows of 2016 and 2015 employer contributions related to the pension, respectively. | 401,095 | 403,560 |
| Deferred inflows of resources related to pension activity. | (361,514) | (959,512) |
| Net position-governmental activities | \$ 1,746,342 | \$ 1,778,870 |

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

THOMAS A. EDISON CHARTER SCHOOL
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GOVERNMENTAL FUNDS
Years Ended June 30, 2016 and 2015

| | <u>Governmental Funds</u> | |
|---|---------------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| REVENUES | | |
| Charges to school districts | \$ 2,806,413 | \$ 2,661,091 |
| State funding-allocation | 4,529,732 | 4,438,852 |
| State funding-other | 301,320 | 265,443 |
| Federal funding | 1,535,656 | 1,749,134 |
| Earnings on cash and equivalents | 21,051 | 13,400 |
| Program services fees | 21,085 | 23,065 |
| Miscellaneous revenues | 26,176 | 22,441 |
| Total revenues | <u>9,241,433</u> | <u>9,173,426</u> |
| EXPENDITURES | | |
| Current: | | |
| Instructional services | 6,578,833 | 6,718,561 |
| Supporting services: | | |
| Operation and maintenance of facilities | 1,234,120 | 947,440 |
| Transportation | 632,406 | 546,171 |
| Food services | 538,736 | 446,179 |
| Capital outlay | 121,911 | 88,245 |
| Total expenditures | <u>9,106,006</u> | <u>8,746,596</u> |
| EXCESS REVENUES OVER EXPENDITURES | <u>135,427</u> | <u>426,830</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Refund of prior years expenditures | ... | ... |
| Appropriations to component unit | ... | (275,000) |
| Total other financing sources (uses) | <u>...</u> | <u>(275,000)</u> |
| NET CHANGE IN FUND BALANCES | 135,427 | 151,830 |
| FUND BALANCES | | |
| Beginning of year | <u>2,290,544</u> | <u>2,138,714</u> |
| End of year | <u>\$ 2,425,971</u> | <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 STATEMENTS OF REVENUES, EXPENDITURES AND

CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
Years Ended June 30, 2016 and 2015

| | <u>Governmental Funds</u> | |
|--|---------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Net change in fund balances-total governmental funds | \$ 135,427 | \$ 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 outlays capitalized as capital assets for the periods presented.

| <u>Description</u> | <u>2016</u> | <u>2015</u> | | |
|----------------------|------------------|------------------|-----------|-----------|
| Capital assets | \$ 11,000 | \$ 15,846 | | |
| Depreciation expense | <u>(187,450)</u> | <u>(210,687)</u> | (176,450) | (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 that are actually paid]. The compensated absences liability decreased or (increased) for the periods presented.

| | |
|--------|-------|
| 10,288 | 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>2016</u> | <u>2015</u> | | |
|--|------------------|---------------|---------|---------|
| School pension contributions | \$ 348,903 | \$ 354,261 | | |
| Cost of benefits earned net of contributions [pension expense] | <u>(350,696)</u> | <u>28,158</u> | (1,793) | 382,419 |

| | | |
|---|---------------------------|--------------------------|
| Change in net position-governmental activities | \$ <u>(32,528)</u> | \$ <u>340,573</u> |
|---|---------------------------|--------------------------|

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

THOMAS A. EDISON CHARTER SCHOOL
STATEMENTS OF FIDUCIARY NET POSITION-AGENCY FUND
As of June 30, 2016 and 2015

| | <u>Student Activities Fund</u> | |
|---------------------------------|--------------------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| ASSETS | | |
| Cash and equivalents | \$ <u>6,522</u> | \$ <u>10,017</u> |
| LIABILITIES | | |
| Due to student and other groups | \$ <u>6,522</u> | \$ <u>10,017</u> |

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 GASB [Governmental Accounting Standards Board] 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 operation of the State of Delaware. 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 the goods and services provided, and grants and contributions that are restricted to meeting the operating or capital requirements of a 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. Major individual governmental funds are reported as separate columns in the fund 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 and other organizations. 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.

Use of Estimates

Preparation of 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, actual results may differ from those estimates.

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.

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/interfund payable" [current portion] or "advances from/to other funds" [noncurrent]. The School has no such activities for the years presented.

Advances between the funds reported in the fund financial statements, when present, are offset by assigned fund balances 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 appropriation.

Capital Assets

Primary Government-Capital assets, which include leasehold improvements, and 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, interest costs incurred during the construction is not capitalized.

Leasehold improvements, and 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.

Impairment of Long-Lived Assets

The **Component Unit**, in accordance with the Financial Accounting Standards Board statement on *Accounting for the Impairment or Disposal of Long-Lived Assets*, 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, 2016 and 2015, the accumulated amortization is \$84,357 and \$78,943, respectively.

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.

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. At June 30, 2016 and 2015, the School has encumbrances outstanding of \$53,716 and \$33,905, respectively.

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 includes unspent 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.

Accounting System

In accordance with the State of Delaware Charter Law, the School is required to maintain its accounting system with the Delaware Division of Accounting and as such the School uses the State codes and code structure identified in the State's *Budget and Accounting Policy Manual*.

Income Tax Status

The School qualifies as a tax exempt organization under Section 170 of the Internal Revenue Code and is not liable for federal or state income taxes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax Status (continued)

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 the returns are filed. The tax positions taken 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, 2016 and 2015, the School has cash and equivalents of \$2,666,491 and \$2,607,424, respectively. These deposits are part of the State investment pool controlled and administered by the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's 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 of Delaware. 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, 2016 and 2015, the reported amount of deposits maintained by the **component unit** outside of the State Treasurer's Office is \$457,579 [book value of \$435,609 and \$21,325] and \$435,807 [book value of \$414,546 and \$21,261], respectively. The deposits held by the one financial institution totaling \$457,579 and \$435,807 were in excess of the Federal Deposit Insurance Corporation [FDIC] limits in the amount of \$207,579 and \$185,807, respectively, and therefore, any excess [or non-coverage] is exposed to custodial credit risk. The custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the Organization.

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 | 2016 | 2015 |
|---|------------------|------------------|
| Passed through the State of Delaware: | | |
| Local school districts | \$... | \$... |
| Federal government-Department of Agriculture | ... | 22,070 |
| Federal government-Department of Education | 16,144 | 8,709 |
| Total amount due from other governments | <u>\$ 16,144</u> | <u>\$ 30,779</u> |
| Component unit: | | |
| State of Delaware Division of Social Services | <u>\$ 6,411</u> | <u>\$ 3,232</u> |

NOTE 6 - CAPITAL ASSETS

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

| Description | As of and Year Ended June 30, 2016 | | | |
|---|------------------------------------|---------------------|-------------------------|--------------------|
| | Beginning Balances | Increases | Decreases | Ending Balances |
| Governmental activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Leasehold improvements | \$ 838,580 | \$ 11,000 | \$... | \$ 849,580 |
| Furniture and equipment | 1,122,602 | ... | ... | 1,122,602 |
| Totals | <u>1,961,182</u> | <u>11,000</u> | <u> ...</u> | <u>1,972,182</u> |
| Less accumulated depreciation: | | | | |
| Leasehold improvements | 191,910 | 49,434 | ... | 241,344 |
| Furniture and equipment | 890,453 | 138,016 | ... | 1,028,469 |
| Totals | <u>1,082,363</u> | <u>187,450</u> | <u> ...</u> | <u>1,269,813</u> |
| Governmental activities capital assets, net | <u>\$ 878,819</u> | <u>\$ (176,450)</u> | <u>\$...</u> | <u>\$ 702,369</u> |
| Component unit: | | | | |
| Capital assets, being depreciated: | | | | |
| Leasehold improvements | \$7,500,449 | \$... | \$... | \$7,500,449 |
| Less accumulated depreciation: | | | | |
| Leasehold improvements | 2,876,499 | 192,320 | ... | 3,068,819 |
| Component unit capital assets, net | <u>\$4,623,950</u> | <u>\$ (192,320)</u> | <u>\$...</u> | <u>\$4,431,630</u> |
| 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> |

THOMAS A. EDISON CHARTER SCHOOL
 NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LONG-TERM DEBT OBLIGATIONS

The following table summarizes School's annual changes in long-term obligations:

| Description | As of and Year Ended June 30, 2016 | | | | Due Within One Year |
|-------------------------------|------------------------------------|-----------|-----------|-------------------|---------------------------|
| | Beginning Balance | Additions | Deletions | Ending Balance | |
| Governmental activity: | | | | | |
| Other long-term debt: | | | | | |
| Compensated absences | \$ 110,007 | \$... | \$ 10,288 | \$ 99,719 | \$... |

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

Component Unit

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 on January 1, 2021. The mortgage note obligation maturities, including interest, are as follows:

| Years Ending June 30 | Principal | Interest | Total |
|--------------------------------|------------|------------|--------------|
| 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 | 166,699 | 4,287 | 170,986 |
| Total mortgage note obligation | 1,133,906 | 208,768 | 1,342,674 |
| Less: Current portion | 215,498 | 77,424 | 292,922 |
| Long-term portion | \$ 918,408 | \$ 131,344 | \$ 1,049,752 |

NOTE 8 - 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 and 2014. 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: McCardle Building, Suite 1; 860 Silver Lake Boulevard; Dover, Delaware 19904.

NOTE 8 - PENSION PLAN (continued)

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 9.56% and 9.50% of earnings for fiscal years 2015 and 2014, 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.

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

At June 30, 2016 and 2015, the School reported a pension liability of \$1,321,860 and \$724,534, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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, 2015 and 2014, the School's proportion was 0.1987 and 0.1968 percent, which was an increase of 0.0019 and 0.0066 percent from its proportion measured as of June 30, 2014 and 2013, respectively.

THOMAS A. EDISON CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - PENSION PLAN (continued)

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

As a result of its requirement to contribute to DPERS, the School recognized pension expense (benefit) of \$350,696 and \$(28,158) for years ended June 30, 2016 and 2015, respectively. At June 30, 2016 and 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 | | | |
|--|--------------------|-------------------|-------------------|-------------------|
| | 2016 | | 2015 | |
| | Outflows | Inflows | Outflows | Inflows |
| Differences between expected and actual experience | \$... | \$ 24,709 | \$... | \$... |
| Changes of assumptions | ... | ... | ... | ... |
| Net difference between projected and actual earnings on pension plan investments | ... | 336,805 | ... | 959,512 |
| Contributions subsequent to measurement date | 348,903 | ... | 354,261 | ... |
| Change in proportion and differences between School contributions and proportionate share of contributions | 52,192 | ... | 49,299 | ... |
| Totals | \$ 401,095 | \$ 361,514 | \$ 403,560 | \$ 959,512 |

\$348,903 and \$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 years ended June 30, 2017 and 2016, respectively. 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 | 2016 | 2015 |
|----------------------|-------------------|-------------------|
| 2016 | \$... | \$ 182,043 |
| 2017 | 61,865 | 182,043 |
| 2018 | 61,865 | 182,043 |
| 2019 | 61,865 | 182,043 |
| 2020 | 61,865 | 182,041 |
| 2021 | 61,862 | ... |
| Totals | \$ 309,322 | \$ 910,213 |

Actuarial assumptions: The total pension liability in the June 30, 2015 and 2014 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality rates were based on the Sex distinct RP-2000 combined Mortality Table projected to both 2015 and 2014, respectively, using scale AA for Males and Females, as appropriate, for mortality improvement.

| Description | Percentages | |
|----------------------------|--|--|
| | 2015 | 2014 |
| Inflation | 3.00% | 3.00% |
| Projected salary increases | 3.50% to 11.50% | 3.50% to 11.50% |
| Investment rate of return | 7.20%, net of pension investment expense | 7.20%, net of pension investment expense |
| Cost-of-living adjustments | n/a | Ad hoc |

NOTE 8 - PENSION PLAN (continued)

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

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 | |
|-------------------------|--|-------|
| | 2015 | 2014 |
| Domestic equity | 5.70% | 5.70% |
| International equity | 5.70% | 5.70% |
| Fixed income | 2.00% | 2.00% |
| Alternative investments | 7.80% | 7.80% |
| Cash and equivalents | 0.00% | 0.00% |

Discount rate: The discount rate for the Plan used to measure the total pension liability was 7.20%. 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.

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: | | | |
| Fiscal year 2016 | \$ 2,986,515 | \$ 1,321,860 | \$ (629,239) |
| Fiscal year 2015 | \$ 2,715,331 | \$ 724,534 | \$ (958,089) |

NOTE 9 - 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 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, 2016, 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 |
|---|-------------------|
| 2017 | \$ 20,000 |
| 2018 | 20,000 |
| 2019 | 20,000 |
| 2020 | 25,000 |
| 2021 | 25,000 |
| 2022-2024 | <u>75,000</u> |
| Minimum future rental payments required | <u>\$ 185,000</u> |

The component unit in turn subleases the property to the School. Total rental revenue under the leasing arrangement amounted to \$592,497 and \$292,922 for the years ended June 30, 2016 and 2015, respectively.

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 under the Uniform Guidance. These awards may be subjected to oversight audits by the grantors and/or their representatives. No audits of these awards have been conducted as of June 30, 2016. 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.

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

Government Awards Subject to the Uniform Guidance

The School participates in certain federal grant awards subject to the audit requirements under the Uniform Guidance. A compliance audit of the federal grant awards was conducted as of and for the year ended June 30, 2016. 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.

NOTE 11 - 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.

NOTE 12 - GASB STATEMENT IMPLEMENTATION

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 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 to the financial statements.

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, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|---|-------------------------|------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Charges to school districts | \$ 2,700,000 | \$ 2,700,000 | \$ 2,806,413 | \$ 106,413 |
| State funding-allocation | 4,440,000 | 4,440,000 | 4,529,732 | 89,732 |
| State funding-other | 225,000 | 225,000 | 301,320 | 76,320 |
| Federal funding-education | 960,160 | 960,160 | 935,239 | (24,921) |
| Federal funding-food service | 530,000 | 530,000 | 600,417 | 70,417 |
| Earnings on cash and equivalents | 11,000 | 11,000 | 21,051 | 10,051 |
| Program services fees | 70,000 | 70,000 | 21,085 | (48,915) |
| Miscellaneous revenues | 10,000 | 10,000 | 26,176 | 16,176 |
| Total revenues | <u>8,946,160</u> | <u>8,946,160</u> | <u>9,241,433</u> | <u>295,273</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries | 3,907,443 | 3,907,443 | 3,870,636 | 36,807 |
| Employment costs | 1,828,293 | 1,828,293 | 1,822,309 | 5,984 |
| Travel | 41,000 | 41,000 | 32,257 | 8,743 |
| Contracted services | 337,795 | 337,795 | 343,958 | (6,163) |
| Communications | 19,950 | 19,950 | 25,637 | (5,687) |
| Public utility services | 165,000 | 165,000 | 141,568 | 23,432 |
| Insurance | 44,000 | 44,000 | 36,328 | 7,672 |
| Transportation | 560,000 | 560,000 | 632,406 | (72,406) |
| Land/Building/Facilities | 592,922 | 592,922 | 592,497 | 425 |
| Repairs and maintenance | 488,377 | 488,377 | 463,727 | 24,650 |
| Other contracted services | 142,400 | 142,400 | 173,129 | (30,729) |
| Supplies and materials | 195,000 | 195,000 | 189,142 | 5,858 |
| Operating supplies | 121,000 | 121,000 | 121,765 | (765) |
| Food services | 550,000 | 550,000 | 538,736 | 11,264 |
| Contingencies | ... | 139,000 | ... | 139,000 |
| Capital outlay | 52,000 | 52,000 | 121,911 | (69,911) |
| Total expenditures | <u>9,045,180</u> | <u>9,184,180</u> | <u>9,106,006</u> | <u>78,174</u> |
| EXCESS REVENUES OVER EXPENDITURES | <u>(99,020)</u> | <u>(238,020)</u> | <u>135,427</u> | <u>373,447</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Refund of prior years expenditures | ... | ... | ... | ... |
| Transfers from component unit | 300,000 | 300,000 | ... | (300,000) |
| Total other financing sources (uses) | <u>300,000</u> | <u>300,000</u> | <u>...</u> | <u>(300,000)</u> |
| NET CHANGE IN FUND BALANCES | 200,980 | 61,980 | 135,427 | 73,447 |
| FUND BALANCES | | | | |
| Beginning of year | ... | ... | 2,290,544 | 2,290,544 |
| End of year | \$ 200,980 | \$ 61,980 | \$ 2,425,971 | \$ 2,363,991 |

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
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 As of and Years Ended June 30,

| | 2016 | 2015 |
|--|---------------------|---------------------|
| School's proportion of net pension liability (asset) | <u>0.1987%</u> | <u>0.1968%</u> |
| School's proportionate share of net pension liability (asset) | <u>\$ 1,321,860</u> | <u>\$ 724,534</u> |
| School's covered-employee payroll | <u>\$ 3,932,693</u> | <u>\$ 3,794,866</u> |
| School's proportionate share of net pension liability (asset) as a percentage of its covered-employee payroll | <u>33.61%</u> | <u>19.09%</u> |
| Plan's fiduciary net position as percentage of total pension liability | <u>92.67%</u> | <u>95.80%</u> |

Note to Schedule:

The amounts presented above are determined as of June 30th of each preceding year.

See Report of Independent Auditor

THOMAS A. EDISON CHARTER SCHOOL
SCHEDULES OF PENSION CONTRIBUTIONS
 Years Ended June 30,

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Contractually required contribution | \$ 348,903 | \$ 354,261 |
| Contributions in relation to contractually required contribution | <u>348,903</u> | <u>354,261</u> |
| Annual contribution (deficiency) excess | <u>\$</u> | <u>\$</u> |
| School covered-employee payroll | <u>\$ 3,852,415</u> | <u>\$ 3,932,693</u> |
| Contributions as percentage of covered-employee payroll | <u>9.06%</u> | <u>9.01%</u> |

See Report of Independent Auditor

Supplementary Information Section

THOMAS A. EDISON CHARTER SCHOOL
 BALANCE SHEETS-GENERAL FUND
 As of June 30, 2016 and 2015

| | 2016 | | | | 2015 | | | |
|--|------------------|---------------------|------------------|---------------------|------------------|---------------------|-----------------|---------------------|
| | State Fund | Local Fund | Federal Fund | Total General Fund | State Fund | Local Fund | Federal Fund | Total General Fund |
| ASSETS | | | | | | | | |
| Cash and equivalents: | | | | | | | | |
| Unrestricted | \$ 53,879 | \$ 2,504,243 | \$... | \$ 2,558,122 | \$ 33,905 | \$ 2,462,714 | \$... | \$ 2,496,619 |
| Restricted | 1,170 | 100,677 | ... | 101,847 | 10 | 100,778 | ... | 100,788 |
| Receivables-other | ... | 2,720 | ... | 2,720 | ... | 1,195 | ... | 1,195 |
| Due from other governments | ... | ... | 16,144 | 16,144 | ... | 22,070 | 8,709 | 30,779 |
| Due from component unit | ... | 19,194 | ... | 19,194 | ... | 4,256 | ... | 4,256 |
| Prepayments and other assets | ... | 109,801 | ... | 109,801 | ... | ... | ... | ... |
| TOTAL ASSETS | <u>\$ 55,049</u> | <u>\$ 2,736,635</u> | <u>\$ 16,144</u> | <u>\$ 2,807,828</u> | <u>\$ 33,915</u> | <u>\$ 2,591,013</u> | <u>\$ 8,709</u> | <u>\$ 2,633,637</u> |
| LIABILITIES | | | | | | | | |
| Accounts payable | \$ 35,996 | \$ 25,642 | \$ 16,144 | \$ 77,782 | \$ 39,866 | \$ 40,413 | \$ 8,709 | \$ 88,988 |
| Accrued salaries and related costs | 304,075 | ... | ... | 304,075 | 254,105 | ... | ... | 254,105 |
| Total liabilities | <u>340,071</u> | <u>25,642</u> | <u>16,144</u> | <u>381,857</u> | <u>293,971</u> | <u>40,413</u> | <u>8,709</u> | <u>343,093</u> |
| FUND BALANCES (DEFICIT) | | | | | | | | |
| Nonspendable-prepayments and other assets | ... | 109,801 | ... | 109,801 | ... | ... | ... | ... |
| Restricted-specific programs | 1,170 | 100,677 | ... | 101,847 | 10 | 100,778 | ... | 100,788 |
| Committed-encumbered | 53,716 | 2,779 | ... | 56,495 | 33,905 | ... | ... | 33,905 |
| Unassigned | (339,908) | 2,497,736 | ... | 2,157,828 | (293,971) | 2,449,822 | ... | 2,155,851 |
| Total fund balances | <u>(285,022)</u> | <u>2,710,993</u> | <u>...</u> | <u>2,425,971</u> | <u>(260,056)</u> | <u>2,550,600</u> | <u>...</u> | <u>2,290,544</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 55,049</u> | <u>\$ 2,736,635</u> | <u>\$ 16,144</u> | <u>\$ 2,807,828</u> | <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
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES-GENERAL FUND
 Years Ended June 30, 2016 and 2015

| | 2016 | | | | 2015 | | | |
|--|------------------|---------------------|---------------|---------------------|---------------------|---------------------|---------------|---------------------|
| | State Fund | Local Fund | Federal Fund | Total General Fund | State Fund | Local Fund | Federal Fund | Total General Fund |
| REVENUES | | | | | | | | |
| Charges to school districts | \$ 4,529,732 | \$ 2,806,413 | \$... | \$ 2,806,413 | \$ 4,438,852 | \$ 2,661,091 | \$... | \$ 2,661,091 |
| State funding-allocation | 163,603 | 137,717 | ... | 4,529,732 | 143,860 | 121,583 | ... | 4,438,852 |
| State funding-other | ... | 600,417 | 935,239 | 301,320 | ... | 560,677 | 1,188,457 | 265,443 |
| Federal funding | ... | 21,051 | ... | 1,535,656 | ... | 13,400 | ... | 1,749,134 |
| Earnings on cash and equivalents | ... | 21,085 | ... | 21,051 | ... | 23,065 | ... | 13,400 |
| Program services fees | ... | 26,176 | ... | 21,085 | ... | 22,441 | ... | 23,065 |
| Miscellaneous revenues | 4,693,335 | 3,612,859 | 935,239 | 26,176 | 4,582,712 | 3,402,257 | 1,188,457 | 22,441 |
| Total revenues | | | | <u>9,241,433</u> | | | | <u>9,173,426</u> |
| EXPENDITURES | | | | | | | | |
| Current: | | | | | | | | |
| Salaries | 1,896,842 | 1,575,183 | 398,611 | 3,870,636 | 2,086,958 | 1,323,381 | 541,802 | 3,952,141 |
| Employment costs | 949,544 | 691,908 | 180,857 | 1,822,309 | 971,225 | 565,885 | 206,921 | 1,744,031 |
| Travel | 105 | 2,622 | 29,530 | 32,257 | ... | 20 | 18,032 | 18,052 |
| Contracted services | 83,008 | 90,237 | 170,713 | 343,958 | 131,825 | 74,940 | 223,266 | 430,031 |
| Communications | 7,694 | 17,943 | ... | 25,637 | 4,127 | 16,318 | ... | 20,445 |
| Public utility services | 109,467 | 32,101 | ... | 141,568 | 154,405 | ... | ... | 154,405 |
| Insurance | 36,328 | ... | ... | 36,328 | 27,471 | ... | ... | 27,471 |
| Transportation | 506,654 | 107,532 | 18,220 | 632,406 | 400,000 | 138,311 | 7,860 | 546,171 |
| Land/Building/Facilities | 492,922 | 99,575 | ... | 592,497 | 292,922 | 21,382 | 10,706 | 325,010 |
| Repairs and maintenance | 373,452 | 90,275 | ... | 463,727 | 352,813 | 87,741 | ... | 440,554 |
| Other contracted services | 102,505 | 34,888 | 35,736 | 173,129 | 80,739 | 17,879 | 60,065 | 158,683 |
| Supplies and materials | 73,167 | 21,758 | 94,217 | 189,142 | 110,267 | 24,809 | 95,502 | 230,578 |
| Operating supplies | 13,983 | 100,427 | 7,355 | 121,765 | 14,061 | 139,896 | 10,643 | 164,600 |
| Food services costs | ... | 538,736 | ... | 538,736 | ... | 446,179 | ... | 446,179 |
| Capital outlay: | | | | | | | | |
| Equipment | 72,630 | 49,281 | ... | 121,911 | 22,089 | 50,497 | 13,660 | 86,246 |
| Food services | 4,718,301 | 3,452,466 | 935,239 | 9,106,006 | 4,648,902 | 2,909,237 | 1,188,457 | 1,999 |
| Total expenditures | | | | <u>135,427</u> | | | | <u>426,830</u> |
| EXCESS (DEFICIT) REVENUES OVER EXPENDITURES | (24,966) | 160,393 | ... | 135,427 | (66,190) | 493,020 | ... | 426,830 |
| OTHER FINANCING SOURCES (USES) | | | | | | | | |
| Refund of prior years expenditures | ... | ... | ... | ... | ... | ... | ... | ... |
| Appropriations to component unit | ... | ... | ... | ... | ... | ... | ... | ... |
| Total other financing sources (uses) | | | | | | | | |
| | | | | | | | | |
| NET CHANGE IN FUND BALANCES | (24,966) | 160,393 | ... | 135,427 | (66,190) | 218,020 | ... | 151,830 |
| FUND BALANCES (DEFICIT) | | | | | | | | |
| Beginning of year | (260,056) | 2,550,600 | ... | 2,290,544 | (193,866) | 2,332,580 | ... | 2,138,714 |
| End of year | <u>(285,022)</u> | <u>\$ 2,710,993</u> | <u>\$...</u> | <u>\$ 2,425,971</u> | <u>\$ (260,056)</u> | <u>\$ 2,550,600</u> | <u>\$...</u> | <u>\$ 2,290,544</u> |

See Report of Independent Auditor

**Reports Required by
the Uniform Guidance**



HAGGERTY & HAGGERTY, P.A.

**CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS**

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

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

**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, 2016, 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 29, 2016.

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 Thomas A. Edison Charter 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 Thomas A. Edison Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Haggerty & Haggerty, P.A.
Certified Public Accountants

August 29, 2016
Wilmington, Delaware



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

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

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

**Report of Independent Auditor
on Compliance for Each Major Program and on Internal Control
over Compliance Required by the Uniform Guidance**

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* [Uniform Guidance]. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report of Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2016, 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 29, 2016, 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 the Uniform Guidance, 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 29, 2016
Wilmington, Delaware

THOMAS A. EDISON CHARTER SCHOOL
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED DISCLOSURES
 Year Ended June 30, 2016

| 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 | \$ 192,065 |
| [1] National School Lunch Program [NSLP] | 10.555 | FSF-91100 | 380,917 |
| Fresh Fruit and Vegetable Program [FFVP] | 10.582 | FSF-91100 | <u>27,435</u> |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | <u>\$ 600,417</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 | \$ 635,093 |
| [2] Special Education-Grants to States [IDEA, Part B] | 84.027 | IDEA FSF-40564 | 166,808 |
| [2] Special Education-Preschool Grants [IDEA Preschool] | 84.173 | IDEA Preschool FSF-40565 | 640 |
| Supporting Effective Instruction- State Grant | 84.367 | TITLE II FSF-40114 | <u>132,698</u> |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | <u>\$ 935,239</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 1,535,656</u> |

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards [the Schedule] includes the federal award activity of Thomas A. Edison Charter School under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* [Uniform Guidance]. Because the Schedule presents only a selected portion of the operation of Thomas A. Edison Charter School, it is not intended to and does not present the financial position, change in net assets, or cash flows of Thomas A. Edison Charter School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Expenditures reported on this Schedule are reflected on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Thomas A. Edison Charter School has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

THOMAS A. EDISON CHARTER SCHOOL
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2016

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 the Uniform Guidance?

 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:

\$750,000

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

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 has implemented the auditor's recommendation. No further action is warranted at this time.

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

None reported or outstanding.