

**ODYSSEY CHARTER SCHOOL**

**ANNUAL FINANCIAL REPORT**

***Year Ended June 30, 2010***

## **INTRODUCTORY SECTION**

## TABLE OF CONTENTS

	<u>Page No.</u>
INTRODUCTORY SECTION	
Table of Contents .....	1
FINANCIAL SECTION	
Independent Auditors' Report .....	3
Management's Discussion and Analysis (Unaudited).....	5
Basic Financial Statements	
<b><i>Government-Wide Financial Statements</i></b>	
Statement of Net Assets .....	11
Statement of Activities .....	12
<b><i>Fund Financial Statements</i></b>	
<i>Governmental Fund</i>	
Balance Sheet .....	13
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities .....	14
Statement of Revenues, Expenditures and Changes in Fund Balance.....	15
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities .....	16
<b><i>Notes to the Basic Financial Statements</i></b> .....	17

## TABLE OF CONTENTS

	<u>Page No.</u>
Required Supplementary Information	
Budgetary Comparison Schedule .....	25
Notes to the Required Supplementary Information .....	26
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	27
ADDITIONAL INFORMATION	
Schedule of Findings and Responses .....	29
Schedule of Prior Audit Findings .....	30



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## **Independent Auditors' Report**

To the Board of Directors  
Odyssey Charter School  
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities and the major fund of the Odyssey Charter School (a component unit of the State of Delaware) as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Odyssey Charter School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Odyssey Charter School as of June 30, 2010, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2010, on our consideration of the Odyssey 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 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 should be considered in assessing the results of our audit.

To the Board of Directors  
Odyssey Charter School  
Wilmington, Delaware

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 and budgetary comparison information on pages 25 and 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.

*Maillie, Falconiero + Company*

West Chester, Pennsylvania  
November 11, 2010

# **ODYSSEY CHARTER SCHOOL**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

*June 30, 2010*

The Board of Directors of the Odyssey Charter School (the "School") are pleased to present to readers of the financial statements of the School this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2010, its fourth year of operation.

### **FINANCIAL HIGHLIGHTS**

#### **Governmental Activities**

- The assets of the School at the close of the fiscal year are \$749,490 (net assets), a decrease of \$24,842 from the previous year.

#### **Fund Level**

- As of the close of the current fiscal year, the School's Governmental Fund (the General Fund) reported an ending fund balance of \$112,690, a decrease of \$13,161 from the previous year. The entire ending fund balance is unreserved. It represents 3% of total General Fund expenditures.

#### **Long-Term Debt**

- The School's total debt decreased to \$3,134,491 at June 30, 2010, a decrease of \$29,787. This decrease represents payments on the long-term debt.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is an introduction to the School's basic financial statements. The School's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements:** The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Assets (page 11) presents information on all of the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators as to whether the financial position of the School is improving or deteriorating.

# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2010

The Statement of Activities (page 12) presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**Fund Financial Statements:** The fund financial statements begin on page 13 and provide detailed information about the General Fund. A "fund" is a fiscal and accounting entity with a self-balancing set of accounts that the School uses to keep track of specific sources of funding and spending for a particular purpose. The General Fund falls into the governmental category.

- **Governmental Funds** - The School's basic services are reported in a Governmental Fund, which focuses on how cash flows into and out of the fund and the balances left at year-end that are available for future spending. The Governmental Fund financial statements provide a detailed, short-term view of the School's operations and the services it provides. Governmental Fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the long-term focus of the government-wide statements, reconciliations are provided (page 14) to explain the differences between the Governmental Fund Balance Sheet and the Statement of Net Assets and between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities (page 16). These funds are reported using the modified accrual basis of accounting, which primarily measures cash and other financial assets available to satisfy current liabilities.

**Notes to the Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 17 of this report.

**Required Supplementary Information:** In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the School's actual revenues and expenses compared to its budget. The required supplementary information can be found on pages 25 and 26.



# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2010

### FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

**Net Assets:** A year-to-year comparison of net assets is as follows:

***Odyssey Charter School's Net Assets  
As of June 30, 2010 and 2009***

	Governmental Activities	
	2010	2009
ASSETS		
Current and other assets	\$ 514,290	\$ 578,696
Capital assets	3,801,104	3,747,168
TOTAL ASSETS	4,315,394	4,325,864
LIABILITIES		
Long-term liabilities	3,006,310	3,068,796
Other liabilities	559,594	482,736
TOTAL LIABILITIES	3,565,904	3,551,532
NET ASSETS		
Invested in capital assets, net of related debt	978,581	901,369
Unrestricted	(229,091)	(127,037)
TOTAL NET ASSETS	\$ 749,490	\$ 774,332

The largest component of the School's net assets, \$3,801,104, is reflected as investment in capital assets (e.g., new building, leasehold improvements, equipment and others), less any debt outstanding that was needed to acquire or construct the assets (\$2,822,523). The increase in invested Capital Assets (Net of Related Debt) of \$77,212 is caused primarily by the purchase of equipment for their new facility and acquisition of equipment needed to keep the School in operation. The unrestricted net assets of governmental activities (a deficit) decreased due to the increase in capital assets acquired using the current year change in net assets.

# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2010

### ***Odyssey Charter School's Change in Net Assets Years Ended June 30, 2010 and 2009***

	Governmental Activities	
	2010	2009
REVENUES		
Charges to school districts	\$ 1,153,096	\$ 911,601
Grants and contributions not restricted to specific programs	2,478,828	1,961,901
Miscellaneous	5,192	10,406
Program revenues		
Charges for services	9,751	9,674
Operating grants and contributions	579,301	97,965
TOTAL REVENUES	4,226,168	2,991,547
EXPENSES		
Instructional services	2,738,370	1,876,254
Support services		
Transportation	248,467	298,794
Operation and maintenance of facilities	972,088	690,063
Interest on long-term debt	292,085	72,038
TOTAL EXPENSES	4,251,010	2,937,149
CHANGE IN NET ASSETS	(24,842)	54,398
NET ASSETS AT BEGINNING OF YEAR	774,332	719,934
NET ASSETS AT END OF YEAR	\$ 749,490	\$ 774,332

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

### **FINANCIAL ANALYSIS OF THE SCHOOL'S FUND**

As the School completed the fiscal year, its Governmental Fund, the General Fund, reported a fund balance of \$112,690 all of it unreserved.

#### **Governmental Fund**

##### ***General Fund - Comparison to Prior Year and to Budget***

The General Fund is the School's operating (and only) fund. At the end of the current fiscal year, the unreserved fund balance was \$112,690, a decrease of \$13,161 compared to fiscal year 2009.

# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2010

The following schedule presents General Fund revenues and expenditures for 2010 compared to budget.

### *Odyssey Charter School General Fund Activity vs. Budget*

	<u>Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUES			
State support	\$ 2,446,900	\$ 2,478,828	\$ 31,928
Federal support	-	132,933	132,933
Charges to school districts	1,136,500	1,153,096	16,596
Local fund-raising	17,000	333,598	316,598
Miscellaneous	-	5,192	5,192
TOTAL REVENUES	<u>3,600,400</u>	<u>4,103,647</u>	<u>503,247</u>
EXPENDITURES			
Instructional services	2,333,576	2,523,838	(190,262)
Supporting services	1,231,900	1,194,963	36,937
Debt service	255,847	220,870	34,977
Capital outlays	64,799	277,866	(213,067)
TOTAL EXPENDITURES	<u>3,886,122</u>	<u>4,217,537</u>	<u>(331,415)</u>
NET CHANGE IN FUND BALANCE	\$ <u>(285,722)</u>	\$ <u>(113,890)</u>	\$ <u>171,832</u>

### GENERAL FUND BUDGETARY HIGHLIGHTS

The School adopted the fiscal year 2010 budget in 2009, and did not amend it during the year. The final budget contained \$3,600,400 of revenues and expenditures of \$3,886,122. The actual results were revenues of \$503,247 above budget and expenditures of \$331,415 above budget.

- State support, representing 60% of revenues, was more than the budget by \$31,928 due in part to higher than anticipated enrollment.
- Charges to school districts, representing 28% of revenues, were greater than the budget by \$16,596.
- Instructional services, representing 60% of expenditures, were greater than the budget by \$190,262 due to the need for added student support services (e.g., special education instruction) and to augment foreign language instruction.
- Capital outlays exceeded the budget by \$213,067 due to the purchase of new books, furniture, computers, equipment and leasehold improvements totaling \$277,866.

# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

June 30, 2010

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

As of June 30, 2010, the School had invested \$3,801,104, net of accumulated depreciation, in its capital assets. The following table presents 2010 asset balances compared to 2009 balances; as further detailed in Note C.

	Governmental Activities	
	2010	2009
Land	\$ 192,945	\$ -
Construction in progress	-	2,885,357
Leasehold improvements	3,431,230	716,470
Furniture and fixtures	110,927	83,146
Books	66,002	62,195
	<u>\$ 3,801,104</u>	<u>\$ 3,747,168</u>

Major capital asset events during the current fiscal year included the following:

- Leasehold improvements and new facility of \$2,858,333 were placed in service. Furniture, equipment and books in the amounts of \$33,466, \$27,611 and \$50,867, respectively, were acquired.

Additional information regarding the School's capital assets is contained in Note C to the financial statements.

#### Long-Term Debt

At the end of the current fiscal year, the School had total debt outstanding of \$3,134,491. Of this amount, \$246,337 is a term loan with a local bank and \$65,591 is an interest-free loan from AHEPA (a related party), the School's non-profit funding organization. Additionally, in 2009, three loans were borrowed to purchase the new building. As of June 30, 2010, the balances on the loans are as follows: term loan with a local bank of \$52,852, a second term with the same bank for \$2,269,671 and a separate purchase money mortgage from the seller of the building for \$500,000.

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School's finances to its various stakeholders and other users of such data. Requests for additional copies of this report, questions concerning any of the information in this report and requests for additional financial information should be addressed to George N. Righos, Board Vice President, 201 Bayard Avenue, Wilmington, Delaware 19805.

**ODYSSEY CHARTER SCHOOL****STATEMENT OF NET ASSETS***June 30, 2010*

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 476,734
Prepaid expenses	37,556
Capital assets	
Non-depreciable	192,945
Depreciable	3,997,560
Accumulated depreciation	<u>(389,401)</u>
TOTAL CAPITAL ASSETS	<u>3,801,104</u>
TOTAL ASSETS	<u>\$ 4,315,394</u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 277,851
Due to other government	46,380
Loans payable	
Portion due or payable within one year	128,181
Portion due or payable after one year	3,006,310
Fair market value adjustment on swap agreement	95,404
Accrued interest	11,154
Deferred revenue	<u>624</u>
TOTAL LIABILITIES	<u>3,565,904</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	978,581
Unrestricted	<u>(229,091)</u>
TOTAL NET ASSETS	<u>749,490</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,315,394</u>

*See accompanying notes to the basic financial statements.*

# ODYSSEY CHARTER SCHOOL

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ 2,738,370	\$ -	\$ 539,301	\$ -	\$ (2,199,069)
Supporting services					
Transportation	248,467	-	-	-	(248,467)
Operation and maintenance of facilities	972,088	9,751	40,000	-	(922,337)
Interest on long-term debt	292,085	-	-	-	(292,085)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 4,251,010</u>	<u>\$ 9,751</u>	<u>\$ 579,301</u>	<u>\$ -</u>	<u>(3,661,958)</u>
GENERAL REVENUES					
Charges to school districts					1,153,096
Grants and contributions not restricted to specific programs					2,478,828
Miscellaneous					5,192
TOTAL GENERAL REVENUES					<u>3,637,116</u>
CHANGE IN NET ASSETS					(24,842)
NET ASSETS AT BEGINNING OF YEAR					<u>774,332</u>
NET ASSETS AT END OF YEAR					<u>\$ 749,490</u>

See accompanying notes to the basic financial statements.

# ODYSSEY CHARTER SCHOOL

## BALANCE SHEET

### GOVERNMENTAL FUND

June 30, 2010

	General Fund
ASSETS	
Cash and cash equivalents	\$ 476,734
Prepaid expenses	<u>37,556</u>
TOTAL ASSETS	<u>\$ 514,290</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 5,532
Accrued salaries and related costs	272,319
Due to other governmental agencies	46,380
Short-term loan payable	65,591
Other payables	11,154
Deferred revenue	<u>624</u>
TOTAL LIABILITIES	<u>401,600</u>
FUND BALANCE	
Unreserved	<u>112,690</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 514,290</u>

*See accompanying notes to the basic financial statements.*

# ODYSSEY CHARTER SCHOOL

## RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2010

TOTAL GOVERNMENTAL FUND BALANCE	\$ 112,690
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Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund. These assets consist of:

Non-depreciable	192,945
Depreciable	3,997,560
Accumulated depreciation	(389,401)

Some liabilities are not due and payable in the current period and therefore are not reported in the fund. Those liabilities consist of:

Loans payable	
Due within one year	(62,590)
Due in more than one year	(3,006,310)
Deferred outflow	<u>(95,404)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>749,490</u>
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*See accompanying notes to the basic financial statements.*



**ODYSSEY CHARTER SCHOOL****STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
Year Ended June 30, 2010**

	<u>General Fund</u>
REVENUES	
State support	\$ 2,478,828
Federal support	255,455
Charges to school districts	1,153,096
Local fund-raising	333,598
Miscellaneous	<u>5,192</u>
TOTAL REVENUES	<u>4,226,169</u>
EXPENDITURES	
Current	
Instructional services	2,582,792
Supporting services	
Operation and maintenance of facilities	903,737
Transportation	248,467
Debt service	
Interest and other charges	196,681
Principal	29,787
Capital outlays	<u>277,866</u>
TOTAL EXPENDITURES	<u>4,239,330</u>
NET CHANGE IN FUND BALANCE	(13,161)
FUND BALANCE AT BEGINNING OF YEAR	<u>125,851</u>
FUND BALANCE AT END OF YEAR	<u>\$ 112,690</u>

*See accompanying notes to the basic financial statements.*

# ODYSSEY CHARTER SCHOOL

## RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

*Year Ended June 30, 2010*

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND	\$ (13,161)
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Capital outlays are reported in the Governmental Fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Capital outlays	277,865
Depreciation expense	(223,929)

The negative fair market value of the swap agreement increases outflow in the statement of activities but does not increase expenditures in the Governmental Fund.

	(95,404)
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Repayment of debt is an expenditure in the Governmental Fund, but the repayment reduces long-term liabilities in the statement of net assets.

	<u>29,787</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(24,842)</u></u>
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*See accompanying notes to the basic financial statements.*

# ODYSSEY CHARTER SCHOOL

## NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

### NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Description of the Charter School

The Odyssey Charter School's (the "School") mission is to prepare students for a lifelong enthusiasm for learning, a keen awareness of world citizenship and an ability to think independently and creatively through participation in a focused foreign language immersion program. The curriculum integrates the learning of a second language, along with the English language, to teach a rigorous curriculum of reading, writing, math, science and social studies. The School currently serves grades K to 5.

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

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

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the School's financial statements.

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

#### Reporting Entity

The School, which opened in September 2006, was established to provide a unique learning environment to students. The School is considered to be a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's (the "State") operations. The School has no component units for which it is considered to be financially accountable.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the School.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include (1) charges to students who purchase, use, or directly benefit from goods and services provided and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenues not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the Governmental Fund.

**Measurement Focus, Basis of Accounting and Financial Statement Preparation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to 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 eligibility requirements imposed by the provider have been 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 period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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.

**Cash and Cash Equivalents**

Except for the fund-raising cash account, cash and cash equivalents of the School are controlled by the State Treasurer's Office in Dover, Delaware. The fund-raising cash account is controlled by the School.

**ODYSSEY CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2010*

**Capital Assets**

The cost of normal repairs and maintenance that does not add to the value of the asset or materially extend the life of the asset is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

For leasehold improvements acquired in connection with the operating lease on the school building, the amortization period is the shorter of the useful life of the leasehold improvement or the lease term (including reasonably assured renewal periods), which is 22 years.

For office and school furniture, the useful life is five years.

For books and educational materials, the useful life is three years.

All assets are depreciated using the straight-line method and a half-year convention.

**Compensated Absences**

Vacation and sick pay plus related payroll taxes are accrued when earned in the government-wide financial statements.

**Vacation** - Vacation must be taken and cannot be accumulated from year to year. Employees are paid for unused vacation upon termination, retirement, etc., at the current rate of pay.

**Sick Leave** - Sick leave allowances cannot be accumulated from year to year.

There were no compensated absences as of June 30, 2010.

**Fund Balance**

In the fund financial statements, the Governmental Fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B     **CASH AND CASH EQUIVALENTS**

At June 30, 2010, the School has a cash and cash equivalents balance of \$476,734. Of that amount, \$430,376 is part of an investment pool controlled by the personnel of the State Treasurer’s Office in Dover, Delaware. All investment decisions are made by the State Treasurer’s Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

The bank balance of cash deposits is insured by the Federal Deposit Insurance Corporation (FDIC), and, therefore, there is no custodial credit risk for these cash deposits.

NOTE C     **CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ -	\$ 192,945	\$ -	\$ 192,945
Construction in progress	2,885,357	-	(2,885,357)	-
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<u>2,885,357</u>	<u>192,945</u>	<u>(2,885,357)</u>	<u>192,945</u>
Capital assets being depreciated				
Leasehold improvements	779,843	2,858,333	-	3,638,176
Furniture and equipment	126,771	61,077	-	187,848
Books	120,669	50,867	-	171,536
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<u>1,027,283</u>	<u>2,970,277</u>	<u>-</u>	<u>3,997,560</u>
Accumulated depreciation				
Leasehold improvements	(63,373)	(143,573)	-	(206,946)
Furniture and equipment	(43,625)	(33,296)	-	(76,921)
Books	(58,474)	(47,060)	-	(105,534)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>(165,472)</u>	<u>(223,929)</u>	<u>-</u>	<u>(389,401)</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<u>861,811</u>	<u>2,746,348</u>	<u>-</u>	<u>3,608,159</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net</b>	<u>\$ 3,747,168</u>	<u>\$ 2,939,293</u>	<u>\$ (2,885,357)</u>	<u>\$ 3,801,104</u>

Depreciation expense is \$223,929 for the year ended June 30, 2010, of which \$155,578 is included in instructional and \$68,351 is included in supporting services in the statement of activities.

**ODYSSEY CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2010*

**NOTE D LEASING ARRANGEMENTS**

The School leases its school building at 3821 Lancaster Avenue under an operating lease with PRE Holding II, LLC. The lease began January 6, 2006, and has a term of seven years, with three five-year renewal options.

The following is a schedule by years of future minimum rentals under the leases at June 30, 2010:

<u>Year Ending June 30,</u>	
2011	\$ 299,610
2012	308,520
2013	<u>156,510</u>
	<u>\$ 764,640</u>

**NOTE E PENSION PLAN**

School employees are considered State employees and are covered under the State's pension program. The State contributed 15.27% for fiscal 2010 of the State's share of the employees' salaries. The School contributed the same percentage on the local share of the salary. The employees contribute 3% of salary in excess of \$6,000. The School's contribution was \$192,633.

Certain significant plan provisions are as follows:

- **Early Retirement**
  - 15 years service - Age 55
  - 25 years service - Any age
- **Service Retirement**
  - 15 years service - Age 60
  - 30 years service - Any age
  - 5 years service - Age 62
- **Disability Retirement**
  - 5 years service and proof of disability
- **Vested Pension**
  - An employee can vest pension rights after five years of service.

# **ODYSSEY CHARTER SCHOOL**

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

*June 30, 2010*

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) Comprehensive Annual Financial Report. This report may be obtained by writing DPERS at the McArdle Building, 860 Silver Lake Boulevard, Suite 1, Dover, DE 19904, calling 1-800-722-7300, or visiting the website at [www.delawarepensions.com/information/financials.shtml](http://www.delawarepensions.com/information/financials.shtml).

### **NOTE F COMMITMENTS AND CONTINGENCIES**

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

#### **Grants**

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

### **NOTE G RISK MANAGEMENT**

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

### **NOTE H DONATED SERVICES**

The School received volunteer services from a Board member who served as the office administrator. For fiscal year 2010, the estimated fair market value of the donated service was \$40,000.

The School also received instructional services from Greek teachers. These services were paid by the Embassy of Greece. For fiscal year 2010, the estimated fair market value of the donated service was \$245,000.



**ODYSSEY CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2010*

**NOTE I      LOANS PAYABLE**

Loans payable as of June 30, 2010, are as follows:

Related-party loan, due on demand, no stated repayment terms	\$      65,591
Term loan with a bank, interest at 7.14% per annum, payments based upon a 20-year amortization with the entire balance due March 2013	246,377
Term loan with a bank, interest at prime plus 0.5% per annum (4.50% at June 30, 2010), payments based on a five-year amortization with the entire balance due February 2014, secured by a second mortgage on the building and other business assets	52,852
Purchase money mortgage note, interest only at 6.50% per annum through April 2012, after that the note shall be paid in monthly installments of \$3,376.04 with the remaining balance due March 2014, secured by the building	500,000
Term loan with a bank, interest only through March 2010, after that 108 monthly payments of principal and interest based on a 25-year amortization schedule with the remaining balance due March 2019, secured by the building, interest at prime plus .50% and subject to a swap agreement	2,269,671
	3,134,491
	(128,181)
	<u>\$    3,006,310</u>

Debt service activity for the year ended June 30, 2010, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Loans payable	\$    3,164,278	\$                    -	\$        (29,787)	\$    3,134,491

**ODYSSEY CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2010*

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 128,181	\$ 185,054	\$ 313,235
2012	68,245	181,395	249,640
2013	302,174	172,947	475,121
2014	549,805	148,589	698,394
2015	53,034	121,662	174,696
2016 to 2019	<u>2,033,052</u>	<u>425,976</u>	<u>2,459,028</u>
	<u>\$ 3,134,491</u>	<u>\$ 1,235,623</u>	<u>\$ 4,370,114</u>

**NOTE J RELATED-PARTY TRANSACTIONS**

The School has entered into a loan agreement with a nonprofit organization. Members of the Board of Directors of the School are also members of the governing body of the nonprofit organization.

**NOTE K FINANCIAL INSTRUMENTS (SWAP)**

The School has entered into an interest rate swap related to its \$2,280,000 variable-rate loan as a means to lower interest costs. The objective of the swap is to change the School's variable-rate loan to a synthetic fixed rate of 5.90%. The loan matures in March 2019, and the swap agreement matures in March 2014. The swap agreement's original notional amount of \$2,280,000 was equal to the principal amount of the loan issued. The notional amount of the swap has declined as loan principal payments have been made and will continue to decline as the principal amount of the associated loan declines. Under the terms of the swap, the School pays the counterparty a fixed payment of 5.90% and receives a variable payment calculated as prime plus 50 basis points. Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$95,404 as of June 30, 2010.

The School adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. All derivatives included in the scope of GASB Statement No. 53 are required to be reported at their fair value, with the exception of fully benefit-responsive synthetic guaranteed investment contracts. During the fiscal year ended June 30, 2010, the School reported a decrease in fair market value of the swap as a deferred outflow in the statement of net assets and interest on long-term debt in the statement of activities. The fair value of the swap was obtained from pricing service at its mid-market values.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**ODYSSEY CHARTER SCHOOL**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
*Year Ended June 30, 2010*

	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
<b>REVENUES</b>			
State support	\$ 2,446,900	\$ 2,478,828	\$ 31,928
Federal support	-	132,933	132,933
Charges to school districts	1,136,500	1,153,096	16,596
Local fund-raising	17,000	333,598	316,598
Miscellaneous	-	5,192	5,192
<b>TOTAL REVENUES</b>	<u>3,600,400</u>	<u>4,103,647</u>	<u>503,247</u>
<b>EXPENDITURES</b>			
Current			
Instructional services	2,333,576	2,523,838	(190,262)
Supporting services			
Operation and maintenance of facilities	841,300	917,136	(75,836)
Transportation	390,600	277,827	112,773
Debt service			
Interest and other charges	226,060	191,083	34,977
Principal	29,787	29,787	-
Capital outlays	64,799	277,866	(213,067)
<b>TOTAL EXPENDITURES</b>	<u>3,886,122</u>	<u>4,217,537</u>	<u>(331,415)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (285,722)</u>	<u>\$ (113,890)</u>	<u>\$ 171,832</u>

*See accompanying notes to the required supplementary information.*

# ODYSSEY CHARTER SCHOOL

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2010

### NOTE A BASIS OF ACCOUNTING

The School's budget is prepared on the cash basis of accounting. The amount reported as "net change in fund balance" on the budgetary basis derives from the cash basis of accounting. Revenues are reported when received and expenditures are reported when paid. This amount differs from the "net change in fund balance" reported on the statement of revenues, expenditures and changes in fund balance, Governmental Fund on page 15.

That statement is prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The following reconciles the net change in fund balance per the budgetary basis to the net change in fund balance per the modified accrual basis.

CHANGE IN FUND BALANCE, BUDGETARY BASIS	\$ (113,890)
Net increase in prepaids	3,104
Net decrease in accounts payable	40,944
Net increase in accrued liabilities	(65,841)
Net decrease in deferred revenue	<u>122,522</u>
CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS	\$ <u>(13,161)</u>

### NOTE B EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess expenditures were funded by various functions that were under budget in the General Fund and fund balance carried over from the prior year.



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## **Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

To the Board of Directors  
Odyssey Charter School  
Wilmington, Delaware

We have audited the financial statements of the governmental activities and the major fund of the Odyssey Charter School as of and for the year ended June 30, 2010, which collectively comprise the Odyssey Charter School's basic financial statements and have issued our report thereon dated November 11, 2010. 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.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the Odyssey Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Odyssey Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Odyssey Charter School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Directors  
Odyssey Charter School  
Wilmington, Delaware

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Odyssey 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*.

This report is intended solely for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of Management and Budget, Office of Auditor of Accounts and the Department of Finance and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

*Maillie, Falconiero + Company*

West Chester, Pennsylvania  
November 11, 2010

## **ADDITIONAL INFORMATION**



**ODYSSEY CHARTER SCHOOL**  
SCHEDULE OF FINDINGS AND RESPONSES  
*Year Ended June 30, 2010*

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

**ODYSSEY CHARTER SCHOOL**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
*Year Ended June 30, 2010*

**FINANCIAL STATEMENTS AUDIT**

**09-01     Accrual Accounting**

**Condition:** The School did not prepare all necessary year-end journal entries to convert its books and records from the cash basis to the accrual basis.

**Recommendation:** We recommend the School develop the necessary workpapers to support the year-end conversion to the accrual basis and then record the appropriate entries.

**Response:** We concur that the School should develop the necessary procedures to support the year-end conversion to the accrual basis and record the appropriate entries. The Business Manager will establish these procedures as discussed during the audit.

**Current Status:** The School has addressed the issue and has prepared all necessary year-end journal entries to convert to the accrual basis. This finding is no longer applicable for the current year.

**09-02     Segregation of Duties**

**Condition:** We noted the following incompatible duties:

- The employee responsible for handling and depositing cash receipts also reconciles the bank accounts, posts to the cash receipts and maintains the accounts receivable subsidiary records.
- The individual who is responsible for setting up new employees in the payroll system, inputting hourly data for part-time employees and initiating the payroll process also maintains the general ledger.
- The same individual who is responsible for posting cash receipts and disbursements also prepares the bank reconciliations.

**Recommendation:** We recommend:

- A separate individual be assigned the duty of opening the business office mail. That individual could then make a listing or copy of all payments received for later comparison to the bank statement.
- An independent person reviews the biweekly payroll reports for accuracy. That individual should initial the reports to document the review process.
- An independent person reviews the monthly bank reconciliations for unusual items. That person should also scan the canceled checks and compare the deposit to the listing or copies made as indicated above.

**ODYSSEY CHARTER SCHOOL**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
*Year Ended June 30, 2010*

***Response:***

- Due to the limited number of administrative employees at the School, it would be difficult for the School secretary to open all of the business mail. The School does not normally receive payments through the mail, only bills. However, starting this year, any payments from parents for the "Before and After Care" program are received by the secretary. She records the payments, copies the checks and turns them over to the Business Office for processing.
- We concur that the biweekly payroll should be reviewed for accuracy by an independent person. This will be accomplished by having the Headmaster review the "Payroll Authorization" form prior to the Business Manager forwarding to the State for each paycheck.
- We concur that the monthly bank reconciliation should be reviewed for unusual items such as canceled checks and deposits and should be compared to copied checks and bank statements.

***Current Status:*** The School has implemented procedures to provide for adequate segregation of duties. This finding is no longer applicable for the current year.

**09-03 Maintain Fixed Asset Records**

***Condition:*** The School does not maintain a detailed listing of fixed assets and does not reconcile these records to the general ledger on a timely basis.

***Recommendation:*** We recommend detailed fixed asset records be kept and maintained on a timely basis.

***Response:*** We concur that detailed fixed asset records be kept and maintained on a timely basis. At this time, the Board Treasurer maintains these records for the School.

***Current Status:*** The School maintains detailed listings of fixed assets and reconciles to the general ledger. This finding is no longer applicable for the current year.