

**ODYSSEY CHARTER SCHOOL**

**ANNUAL FINANCIAL REPORT**

*Year Ended June 30, 2011*

## **INTRODUCTORY SECTION**

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## **FINANCIAL SECTION**



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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 June 30, 2011, and for the year then ended, which collectively comprise the Odyssey Charter 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, 2011, and the respective 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 issued our report dated April 19, 2012, 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 26 and 27 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, LLP*

West Chester, Pennsylvania  
April 19, 2012

# **ODYSSEY CHARTER SCHOOL**

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

*Year Ended June 30, 2011*

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, 2011, its fifth year of operation.

### **FINANCIAL HIGHLIGHTS**

#### **Governmental Activities**

- The assets of the School at the close of the fiscal year are \$831,131 (net assets), an increase of \$81,641 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 \$180,629, an increase of \$67,939 from the previous year. Of this amount, \$37,554 is nonspendable, and \$143,075 is unassigned. The fund balance represents 4% of total General Fund expenditures.

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

- The School's total debt decreased to \$3,072,511 at June 30, 2011, a decrease of \$61,980. 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.

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.



# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

**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 26 and 27.

# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

### 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, 2011 and 2010***

	Governmental Activities	
	2011	2010
ASSETS		
Current and other assets	\$ 761,731	\$ 514,290
Capital assets	3,752,904	3,801,104
TOTAL ASSETS	<u>4,514,635</u>	<u>4,315,394</u>
LIABILITIES		
Long-term liabilities	2,938,162	3,006,310
Other liabilities	745,342	559,594
TOTAL LIABILITIES	<u>3,683,504</u>	<u>3,565,904</u>
NET ASSETS		
Invested in capital assets, net of related debt	985,872	978,581
Unrestricted	<u>(154,741)</u>	<u>(229,091)</u>
TOTAL NET ASSETS	<u>\$ 831,131</u>	<u>\$ 749,490</u>

The largest component of the School's net assets, \$3,752,904, is reflected as investment in capital assets (e.g., building, leasehold improvements, equipment and others), less any debt outstanding that was needed to acquire or construct the assets (\$2,767,032). The increase in invested capital assets (net of related debt) of \$11,191 was caused by a combination of acquisition of capital assets, depreciation expense and current year repayment of long-term debt. The unrestricted net assets of governmental activities (a deficit) decreased due to the increase in current year change in net assets.

# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

### Odyssey Charter School's Change in Net Assets Years Ended June 30, 2011 and 2010

	Governmental Activities	
	2011	2010
REVENUES		
Charges to school districts	\$ 1,376,003	\$ 1,153,096
Grants and contributions not restricted to specific programs	2,832,951	2,478,828
Other local sources	5,877	5,192
Program revenues		
Charges for services	74,734	9,751
Operating grants and contributions	401,299	579,301
TOTAL REVENUES	4,690,864	4,226,168
EXPENSES		
Instructional services	3,264,881	2,738,370
Support services		
Operation and maintenance of facilities	910,395	972,088
Transportation	248,682	248,467
Interest on long-term debt	185,265	292,085
TOTAL EXPENSES	4,609,223	4,251,010
CHANGE IN NET ASSETS	81,641	(24,842)
NET ASSETS AT BEGINNING OF YEAR	749,490	774,332
NET ASSETS AT END OF YEAR	\$ 831,131	\$ 749,490

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 \$180,629.

#### 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 fund balance was \$180,629, an increase of \$67,939 compared to fiscal year 2010.

# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

The following schedule presents General Fund revenues and expenditures for 2011 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	\$ 2,832,327	\$ 2,832,951	\$ 624
Federal support	160,722	208,654	47,932
Charges to school districts	1,371,912	1,376,003	4,091
Charges for services and contributions	132,760	379,254	246,494
Miscellaneous	-	5,877	5,877
TOTAL REVENUES	<u>4,497,721</u>	<u>4,802,739</u>	<u>305,018</u>
EXPENDITURES			
Instructional services	2,746,420	3,005,799	(259,379)
Supporting services	1,028,175	1,032,297	(4,122)
Debt service	216,700	247,373	(30,673)
Capital outlays	261,515	223,447	38,068
TOTAL EXPENDITURES	<u>4,252,810</u>	<u>4,508,916</u>	<u>(256,106)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 244,911</u>	<u>\$ 293,823</u>	<u>\$ 48,912</u>

### GENERAL FUND BUDGETARY HIGHLIGHTS

The School adopted the fiscal year 2011 budget in 2010, and did not amend it during the year. The final budget contained \$4,497,721 of revenues and expenditures of \$4,252,810. The actual results were revenues of \$305,018 above budget and expenditures of \$256,106 above budget.

- State support, representing 59% of revenues, was more than the budget by \$624.
- Charges to school districts, representing 29% of revenues, were greater than the budget by \$4,091.
- Instructional services, representing 67% of expenditures, were greater than the budget by \$259,379 due to the need for added student support services (e.g., special education instruction) and to augment foreign language instruction.
- Capital outlays were less than the budget by \$38,068 due to the incompleteness of budgeted school improvements.

# ODYSSEY CHARTER SCHOOL

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2011

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

As of June 30, 2011, the School had invested \$3,752,904, net of accumulated depreciation, in its capital assets. The following table presents 2011 asset balances compared to 2010 balances; as further detailed in Note C.

	Governmental Activities	
	2011	2010
Land	\$ 192,945	\$ 192,945
Construction in progress	44,782	-
Leasehold improvements	3,345,014	3,431,230
Furniture and fixtures	96,372	110,927
Books	73,791	66,002
	<u>\$ 3,752,904</u>	<u>\$ 3,801,104</u>

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

- At June 30, 2011, the renovations in the amount of \$44,782 were not completed. Leasehold improvements of \$98,151 were placed in service during the year. Furniture, equipment and books in the amounts of \$21,516, \$4,055 and \$54,943, 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 \$3,072,511. Of this amount, \$239,888, \$39,301 and \$2,227,731 are term loans with local banks, \$500,000 is a separate purchase money mortgage from the seller of the Upper School building and \$65,591 is an interest-free loan from AHEPA (a related party), the School's nonprofit funding organization.

### 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, 2011*

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 721,640
Receivables	2,537
Prepaid expenses	37,554
Capital assets	
Non-depreciable	237,727
Depreciable	4,176,225
Accumulated depreciation	<u>(661,048)</u>
TOTAL CAPITAL ASSETS	<u>3,752,904</u>
 TOTAL ASSETS	 \$ <u><u>4,514,635</u></u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 392,064
Loans payable	
Portion due or payable within one year	134,349
Portion due or payable after one year	2,938,162
Fair market value adjustment on swap agreement	95,482
Accrued interest	10,948
Deferred revenue	<u>112,499</u>
TOTAL LIABILITIES	<u>3,683,504</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	985,872
Unrestricted	<u>(154,741)</u>
TOTAL NET ASSETS	<u>831,131</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u><u>4,514,635</u></u>

*See accompanying notes to the basic financial statements.*

**ODYSSEY CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
*Year Ended June 30, 2011*

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	
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 3,264,881	\$ 74,734	\$ 361,299	\$ -	\$ (2,828,848)
Supporting services					
Transportation	248,682	-	-	-	(248,682)
Operation and maintenance of facilities	910,395	-	40,000	-	(870,395)
Interest on long-term debt	185,265	-	-	-	(185,265)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 4,609,223</b>	<b>\$ 74,734</b>	<b>\$ 401,299</b>	<b>\$ -</b>	<b>(4,133,190)</b>
<b>GENERAL REVENUES</b>					
Charges to school districts					1,376,003
Grants and contributions not restricted to specific programs					2,832,951
Miscellaneous					5,877
<b>TOTAL GENERAL REVENUES</b>					<b>4,214,831</b>
<b>CHANGE IN NET ASSETS</b>					
					81,641
<b>NET ASSETS AT BEGINNING OF YEAR</b>					
					749,490
<b>NET ASSETS AT END OF YEAR</b>					
					<b>\$ 831,131</b>

# ODYSSEY CHARTER SCHOOL

## BALANCE SHEET

### GOVERNMENTAL FUND

June 30, 2011

	General Fund
<hr/>	
ASSETS	
Cash and cash equivalents	\$ 721,640
Receivables	2,537
Prepaid expenses	<u>37,554</u>
TOTAL ASSETS	<u>\$ 761,731</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 47,731
Accrued salaries and related costs	344,333
Short-term loan payable	65,591
Accrued interest	10,948
Deferred revenue	<u>112,499</u>
TOTAL LIABILITIES	<u>581,102</u>
FUND BALANCE	
Nonspendable	37,554
Unassigned	<u>143,075</u>
TOTAL FUND BALANCE	<u>180,629</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 761,731</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, 2011*

TOTAL GOVERNMENTAL FUND BALANCE	\$ 180,629
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	237,727
Depreciable	4,176,225
Accumulated depreciation	(661,048)
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	(68,758)
Due in more than one year	(2,938,162)
Deferred outflow	<u>(95,482)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>831,131</u>

*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, 2011*

	<u>General Fund</u>
<b>REVENUES</b>	
State support	\$ 2,832,951
Federal support	96,779
Charges to school districts	1,376,003
Charges for services and contributions	379,254
Miscellaneous	<u>5,877</u>
<b>TOTAL REVENUES</b>	<u>4,690,864</u>
<b>EXPENDITURES</b>	
Current	
Instructional services	3,077,813
Supporting services	
Operation and maintenance of facilities	825,816
Transportation	248,682
Debt service	
Interest and other charges	185,187
Principal	61,980
Capital outlays	<u>223,447</u>
<b>TOTAL EXPENDITURES</b>	<u>4,622,925</u>
<b>NET CHANGE IN FUND BALANCE</b>	67,939
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>112,690</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 180,629</u></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, 2011*

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND	\$ 67,939
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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 depreciation exceeds capital outlays in the current period.

Capital outlays	223,447
Depreciation	(271,647)

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.

(78)

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

61,980

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>81,641</u></u>
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*See accompanying notes to the basic financial statements.*

**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 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.

**ODYSSEY CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2011*

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.

**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.

**ODYSSEY CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2011*

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, 2011.

**New Accounting Pronouncement**

The School has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The main financial statement effects relating to this new accounting standard are how the components of the School's fund balances will be presented on the balance sheet.

**Fund Balance**

In the fund financial statements, the Governmental Fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective Governmental Funds can be spent. The classifications used in the Governmental Fund financial statements are as follows:

- ***Nonspendable*** - This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) are legally or contractually required to be maintained intact. The School has classified prepaid items as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- ***Restricted*** - This classification includes amounts for which constraints have been placed on the use of the resources either (1) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The School has classified deferred grant revenue as being restricted because its use is restricted by the federal government.

- **Committed** - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The Board is the highest level of decision-making authority for the School. Commitments cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2011.
- **Assigned** - This classification includes amounts that are constrained by the School's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or through the School Board delegating this responsibility to the School management through the budgetary process. The School did not have any assigned fund balance as of June 30, 2011.
- **Unassigned** - This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other Governmental Fund that cannot be eliminated by offsetting of assigned fund balance amounts.

#### **Income Tax**

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 School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The School believes it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. The School's federal Return of Organization Exempt From Income Tax (Form 990) for tax years 2008, 2009 and 2010 is subject to examination by the IRS, generally for three years after the tax returns were filed; however, there are currently no audits in progress for any tax periods.

#### **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, 2011, the School has a cash and cash equivalents balance of \$721,640. Of that amount, \$672,994 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, 2011, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 192,945	\$ -	\$ -	\$ 192,945
Construction in progress	-	44,782	-	44,782
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<u>192,945</u>	<u>44,782</u>	<u>-</u>	<u>237,727</u>
Capital assets being depreciated				
Leasehold improvements	3,638,176	98,151	-	3,736,327
Furniture and equipment	187,848	25,571	-	213,419
Books	171,536	54,943	-	226,479
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<u>3,997,560</u>	<u>178,665</u>	<u>-</u>	<u>4,176,225</u>
Accumulated depreciation				
Leasehold improvements	(206,946)	(184,367)	-	(391,313)
Furniture and equipment	(76,921)	(40,126)	-	(117,047)
Books	(105,534)	(47,154)	-	(152,688)
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>(389,401)</u>	<u>(271,647)</u>	<u>-</u>	<u>(661,048)</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED, net</b>	<u>3,608,159</u>	<u>(92,982)</u>	<u>-</u>	<u>3,515,177</u>
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net</b>	<u>\$ 3,801,104</u>	<u>\$ (48,200)</u>	<u>\$ -</u>	<u>\$ 3,752,904</u>

Depreciation expense is \$271,647 for the year ended June 30, 2011, of which \$187,068 is included in instructional and \$84,579 is included in supporting services in the statement of activities.



**ODYSSEY CHARTER SCHOOL**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2011

**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. Rental expense for the year ended June 30, 2011, was \$350,678.

The following is a schedule by years of future minimum rentals under the leases at June 30, 2011:

<u>Year Ending June 30,</u>	
2012	\$ 308,520
2013	<u>156,510</u>
	<u>\$ 465,030</u>

**NOTE E PENSION PLAN**

School employees are considered State employees and are covered under the State's pension program. The State contributed 17.25% for fiscal 2011 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 \$278,378.

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, 2011*

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 2011, 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 2011, the estimated fair market value of the donated services was \$215,000.

**ODYSSEY CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2011*

**NOTE I      LOANS PAYABLE**

Loans payable as of June 30, 2011, 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	239,888
Term loan with a bank, interest at prime plus 0.5% per annum (4.50% at June 30, 2011), 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	39,301
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	<u>2,227,731</u> <u>3,072,511</u> <u>(134,349)</u>
Current portion	<u><u>\$    2,938,162</u></u>

Debt service activity for the year ended June 30, 2011, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Loans payable	\$ <u>3,134,491</u>	\$ <u>-</u>	\$ <u>(61,980)</u>	\$ <u>3,072,511</u>

**ODYSSEY CHARTER SCHOOL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2011*

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 134,349	\$ 159,956	\$ 294,305
2013	303,036	172,901	475,937
2014	549,040	145,937	694,977
2015	53,034	121,662	174,696
2016	56,229	118,448	174,677
2017 to 2019	<u>1,976,823</u>	<u>307,528</u>	<u>2,284,351</u>
	<u>\$ 3,072,511</u>	<u>\$ 1,026,432</u>	<u>\$ 4,098,943</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 \$95,482 as of June 30, 2011.

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, 2011, 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, 2011*

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts <u>Budgetary Basis</u>	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>			
State support	\$ 2,832,327	\$ 2,832,951	\$ 624
Federal support	160,722	208,654	47,932
Charges to school districts	1,371,912	1,376,003	4,091
Charges for services and contributions	132,760	379,254	246,494
Miscellaneous	-	5,877	5,877
<b>TOTAL REVENUES</b>	<u>4,497,721</u>	<u>4,802,739</u>	<u>305,018</u>
<b>EXPENDITURES</b>			
Current			
Instructional services	2,746,420	3,005,799	(259,379)
Supporting services			
Operation and maintenance of facilities	791,178	795,300	(4,122)
Transportation	236,997	236,997	-
Debt service			
Interest and other charges	154,720	185,393	(30,673)
Principal	61,980	61,980	-
Capital outlays	261,515	223,447	38,068
<b>TOTAL EXPENDITURES</b>	<u>4,252,810</u>	<u>4,508,916</u>	<u>(256,106)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 244,911</u>	<u>\$ 293,823</u>	<u>\$ 48,912</u>

*See accompanying notes to the required supplementary information.*

# ODYSSEY CHARTER SCHOOL

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2011

### 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	\$ 293,823
Net decrease in prepaids	(2)
Net increase in accounts payable	(42,199)
Net increase in accrued liabilities	(71,808)
Net increase in deferred revenue	<u>(111,875)</u>
CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS	\$ <u>67,939</u>

### NOTE B EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess expenditures were funded by various revenues that were over 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, 2011, which collectively comprise the Odyssey Charter School's basic financial statements and have issued our report thereon dated April 19, 2012. 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, LLP*

West Chester, Pennsylvania  
April 19, 2012

**ODYSSEY CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
*Year Ended June 30, 2011*

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

**ODYSSEY CHARTER SCHOOL**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
*Year Ended June 30, 2011*

**FINANCIAL STATEMENTS AUDIT**

None.