

ODYSSEY CHARTER SCHOOL

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2012

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, 2012, 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 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, 2012, 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 (GAAP).

In accordance with *Government Auditing Standards*, we have issued our report dated October 25, 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 27 and 28 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 evidence sufficient to express an opinion or provide any assurance.

Maullie Falconiero + Company LLP

West Chester, Pennsylvania
October 25, 2012

ODYSSEY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2012

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, 2012, its sixth year of operation.

FINANCIAL HIGHLIGHTS

Governmental Activities

- The assets of the School at the close of the fiscal year are \$1,215,355 (net assets), an increase of \$384,224 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 \$480,353, an increase of \$299,724 from the previous year. Of this amount, \$44,715 is nonspendable, and \$435,638 is unassigned. The fund balance represents 9% of total General Fund expenditures.

Long-Term Debt

- The School's total debt decreased to \$2,938,009 at June 30, 2012, a decrease of \$134,502. 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, 2012

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 27 and 28.

ODYSSEY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2012

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, 2012 and 2011***

	Governmental Activities	
	2012	2011
ASSETS		
Current and other assets	\$ 1,039,335	\$ 761,731
Capital assets	3,753,771	3,752,904
TOTAL ASSETS	<u>4,793,106</u>	<u>4,514,635</u>
LIABILITIES		
Long-term liabilities	2,635,127	2,938,162
Other liabilities	942,624	745,342
TOTAL LIABILITIES	<u>3,577,751</u>	<u>3,683,504</u>
NET ASSETS		
Invested in capital assets, net of related debt	1,048,084	985,872
Unrestricted	167,271	(154,741)
TOTAL NET ASSETS	<u>\$ 1,215,355</u>	<u>\$ 831,131</u>

The largest component of the School's net assets, \$3,753,771, 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 (\$2,705,687). The increase in invested capital assets (net of related debt) of \$62,212 was caused by a combination of acquisition of capital assets, depreciation expense, current year repayment and forgiveness of long-term debt. The unrestricted net assets of governmental activities increased due to the increase in current year change in net assets.

Other liabilities increased by approximately \$197,282. This was due to an increase in the current portion of long-term debt resulting from a balloon payment due in 2013 and an increase in accrued salaries of approximately \$70,000.

ODYSSEY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2012

Odyssey Charter School's Change in Net Assets Years Ended June 30, 2012 and 2011

	Governmental Activities	
	2012	2011
REVENUES		
Charges to school districts	\$ 1,665,308	\$ 1,376,003
Grants and contributions not restricted to specific programs	3,301,829	2,832,951
Other local sources	83,229	5,877
Program revenues		
Charges for services	133,531	74,734
Operating grants and contributions	559,663	401,299
TOTAL REVENUES	5,743,560	4,690,864
EXPENSES		
Instructional services	3,938,666	3,264,881
Support services		
Operation and maintenance of facilities	994,012	910,395
Transportation	257,954	248,682
Interest on long-term debt	168,704	185,265
TOTAL EXPENSES	5,359,336	4,609,223
CHANGE IN NET ASSETS	384,224	81,641
NET ASSETS AT BEGINNING OF YEAR	831,131	749,490
NET ASSETS AT END OF YEAR	\$ 1,215,355	\$ 831,131

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 \$480,353.

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 \$480,353, an increase of \$299,724 compared to fiscal year 2011.

ODYSSEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2012

The following schedule presents General Fund revenues and expenditures for 2012 compared to budget.

Odyssey Charter School
General Fund Activity vs. Budget

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
REVENUES				
State support	\$ 3,185,503	\$ 3,185,503	\$ 3,301,829	\$ 116,326
Federal support	188,640	202,695	70,224	(132,471)
Charges to school districts	1,604,346	1,640,649	1,665,308	24,659
Charges for services and contributions	123,216	123,216	326,415	203,199
Miscellaneous	<u>18,254</u>	<u>18,254</u>	<u>83,229</u>	<u>64,975</u>
TOTAL REVENUES	<u>5,119,959</u>	<u>5,170,317</u>	<u>5,447,005</u>	<u>276,688</u>
EXPENDITURES				
Instructional services	3,399,343	3,327,877	3,399,099	(71,222)
Supporting services	993,565	1,014,167	1,166,346	(152,179)
Debt service	248,000	248,000	252,426	(4,426)
Capital outlays	174,300	182,511	291,752	(109,241)
Contingency reserve	<u>304,751</u>	<u>397,762</u>	<u>-</u>	<u>397,762</u>
TOTAL EXPENDITURES	<u>5,119,959</u>	<u>5,170,317</u>	<u>5,109,623</u>	<u>60,694</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 337,382</u>	<u>\$ 337,382</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The School adopted the fiscal year 2012 budget in 2011, and did amend it during the year. The final budget contained \$5,170,317 of revenues and expenditures. The actual results were revenues of \$276,688 above budget and expenditures of \$60,694 less than budget.

- State support, representing 61% of revenues, was more than the budget by \$116,326 due to increased enrollment and more special education students than anticipated.
- Charges to school districts, representing 31% of revenues, were greater than the budget by \$24,659 due to increased enrollment and more special education students than anticipated.
- Instructional services, representing 67% of expenditures, were greater than the budget by \$71,222 due to the need for added student support services (e.g., special education instruction).
- Supporting Services, which include Operation and Maintenance of Facilities, were greater than the budget by \$152,179 due to increased maintenance and utility costs related to the overall operation of the school.

ODYSSEY CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Year Ended June 30, 2012

- Capital outlays were greater than the budget by \$109,241 due to the purchase of school equipment through ARRA grant as well as additional school improvements/renovations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2012, the School had invested \$3,753,771, net of accumulated depreciation, in its capital assets. The following table presents 2012 asset balances compared to 2011 balances; as further detailed in Note C.

	Governmental Activities	
	2012	2011
Land	\$ 192,945	\$ 192,945
Construction in progress	50,000	44,782
Building and Leasehold improvements	3,294,996	3,345,014
Furniture and fixtures	119,243	96,372
Books	96,587	73,791
	<u>\$ 3,753,771</u>	<u>\$ 3,752,904</u>

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

- At June 30, 2012, the School began the process of purchasing a new building; expenses of \$50,000 were incurred. Leasehold improvements of \$140,020 were placed in service during the year. Furniture, equipment and books in the amounts of \$14,445, \$52,523 and \$79,546, 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 \$2,938,009. Of this amount, \$232,321, \$25,124 and \$2,183,257 are term loans with local banks, \$497,307 is a separate purchase money mortgage from the seller of the Upper School building.

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, 2012*

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 948,522
Receivables	<u>46,098</u>
Prepaid expenses	<u>44,715</u>
Capital assets	
Nondepreciable	242,945
Depreciable	4,462,759
Accumulated depreciation	<u>(951,933)</u>
TOTAL CAPITAL ASSETS	<u>3,753,771</u>
 TOTAL ASSETS	 <u>\$ 4,793,106</u>
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	\$ 462,178
Loans payable	
Portion due or payable within one year	302,882
Portion due or payable after one year	2,635,127
Fair market value adjustment on swap agreement	80,760
Accrued interest	10,860
Deferred revenue	<u>85,944</u>
TOTAL LIABILITIES	<u>3,577,751</u>
 NET ASSETS	
Invested in capital assets, net of related debt	1,048,084
Unrestricted	<u>167,271</u>
TOTAL NET ASSETS	<u>1,215,355</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,793,106</u>

See accompanying notes to the basic financial statements.

ODYSSEY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES				
Instructional services	\$ 3,938,666	\$ 133,531	\$ 519,663	\$ -
Supporting services				
Transportation	257,954	-	-	-
Operation and maintenance of facilities	994,012	-	40,000	-
Interest on long-term debt	168,704	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	\$ 5,359,336	\$ 133,531	\$ 559,663	\$ (4,666,142)
GENERAL REVENUES				
Charges to school districts				1,665,308
Grants and contributions not restricted to specific programs				3,301,829
Miscellaneous				83,229
TOTAL GENERAL REVENUES				5,050,366
CHANGE IN NET ASSETS				384,224
NET ASSETS AT BEGINNING OF YEAR				831,131
NET ASSETS AT END OF YEAR				\$ 1,215,355

See accompanying notes to the basic financial statements.

ODYSSEY CHARTER SCHOOL

BALANCE SHEET

GOVERNMENTAL FUND

June 30, 2012

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 948,522
Receivables	46,098
Prepaid expenses	<u>44,715</u>
TOTAL ASSETS	<u>\$ 1,039,335</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 12,117
Accrued salaries and related costs	450,061
Accrued interest	10,860
Deferred revenue	<u>85,944</u>
TOTAL LIABILITIES	<u>558,982</u>
FUND BALANCE	
Nonspendable, prepaid items	44,715
Unassigned	<u>435,638</u>
TOTAL FUND BALANCE	<u>480,353</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,039,335</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, 2012

TOTAL GOVERNMENTAL FUND BALANCE	\$ 480,353
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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:

Nondepreciable	242,945
Depreciable	4,462,759
Accumulated depreciation	(951,933)

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	(302,882)
Due in more than one year	(2,635,127)
Deferred outflow	<u>(80,760)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>1,215,355</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, 2012*

	<u>General Fund</u>
REVENUES	
State support	\$ 3,301,829
Federal support	96,779
Charges to school districts	1,665,308
Charges for services and contributions	596,415
Loan forgiveness	65,590
Miscellaneous	<u>17,639</u>
TOTAL REVENUES	<u>5,743,560</u>
EXPENDITURES	
Current	
Instructional services	3,734,827
Supporting services	
Operation and maintenance of facilities	906,965
Transportation	257,954
Debt service	
Interest and other charges	183,426
Principal	68,912
Capital outlays	<u>291,752</u>
TOTAL EXPENDITURES	<u>5,443,836</u>
NET CHANGE IN FUND BALANCE	299,724
FUND BALANCE AT BEGINNING OF YEAR	<u>180,629</u>
FUND BALANCE AT END OF YEAR	<u><u>\$ 480,353</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, 2012

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND \$ 299,724

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	291,751
Depreciation	(290,885)

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.

14,722

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

68,912

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 384,224

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, 2012

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

It is the School's policy to capitalize items of equipment and furnishings that have a per unit acquisition cost of \$1,000 or more, computer hardware having a per unit price of \$25 or more and textbook or library books. 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, 2012

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, 2012.

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 Governmental Fund 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.

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

- **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, 2012.
- **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, 2012.
- **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.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed

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. 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 2009, 2010 and 2011 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, 2012, the School has a cash and cash equivalents balance of \$948,522. Of that amount, \$808,631 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, 2012, 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	50,000	(44,782)	50,000
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	<u>237,727</u>	<u>50,000</u>	<u>(44,782)</u>	<u>242,945</u>
Capital assets being depreciated				
Building and leasehold improvements	3,736,327	140,020	-	3,876,347
Furniture and equipment	213,419	66,968	-	280,387
Books	226,479	79,546	-	306,025
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>4,176,225</u>	<u>286,534</u>	<u>-</u>	<u>4,462,759</u>
Accumulated depreciation				
Building and leasehold improvements	(391,313)	(190,038)	-	(581,351)
Furniture and equipment	(117,047)	(44,097)	-	(161,144)
Books	(152,688)	(56,750)	-	(209,438)
TOTAL ACCUMULATED DEPRECIATION	<u>(661,048)</u>	<u>(290,885)</u>	<u>-</u>	<u>(951,933)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>3,515,177</u>	<u>(4,351)</u>	<u>-</u>	<u>3,510,826</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>\$ 3,752,904</u>	<u>\$ 45,649</u>	<u>\$ (44,782)</u>	<u>\$ 3,753,771</u>

Depreciation expense is \$290,885 for the year ended June 30, 2012, of which \$203,838 is included in instructional and \$87,047 is included in supporting services on the statement of activities.

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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, 2012, was \$362,461.

The following is a schedule by years of future minimum rentals under the lease at June 30, 2012:

<u>Year Ending</u> <u>June 30,</u>	
2013	\$ <u>237,266</u>

NOTE E PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. The State contributed 18.76% for fiscal 2012 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 \$358,762

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 if hired prior to January 1, 2012.
 - Post 2011, an employee can vest pension rights after ten years of service.

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

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, by calling 1-800-722-7300, or by visiting the website at 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 2012, 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 2012, the estimated fair market value of the donated services was \$230,000.

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE I LOANS PAYABLE

Loans payable as of June 30, 2012, are as follows:

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	\$ 232,321
Term loan with a bank, interest at prime plus 0.5% per annum (4.50% at June 30, 2012), 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	25,124
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	497,307
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	2,183,257
	<u>2,938,009</u>
Current portion	<u>(302,882)</u>
	<u>\$ 2,635,127</u>

Debt service activity for the year ended June 30, 2012, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Loans payable	\$ <u>3,072,511</u>	\$ <u> -</u>	\$ <u>(134,502)</u>	\$ <u>2,938,009</u>

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2013	\$ 302,882	\$ 172,901	\$ 475,783
2014	549,040	145,937	694,977
2015	53,034	121,662	174,696
2016	56,229	118,448	174,677
2017	59,628	115,040	174,668
2018 to 2019	<u>1,917,196</u>	<u>192,488</u>	<u>2,109,684</u>
	<u>\$ 2,938,009</u>	<u>\$ 866,476</u>	<u>\$ 3,804,485</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. In 2012, this loan was forgiven.

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 \$80,760 as of June 30, 2012.

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, 2012, 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.

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE L SUBSEQUENT EVENTS

The School entered into a lease at 3825 Lancaster Pike under an operating lease with Morgan-Ashley, LLC. The lease begins July 1, 2012, and has a term one year expiring on June 30, 2013. Annual rent will be \$80,756.

REQUIRED SUPPLEMENTARY INFORMATION

ODYSSEY CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES				
State support	\$ 3,185,503	\$ 3,185,503	\$ 3,301,829	\$ 116,326
Federal support	188,640	202,695	70,224	(132,471)
Charges to school districts	1,604,346	1,640,649	1,665,308	24,659
Charges for services and contributions	123,216	123,216	326,415	203,199
Miscellaneous	18,254	18,254	83,229	64,975
TOTAL REVENUES	<u>5,119,959</u>	<u>5,170,317</u>	<u>5,447,005</u>	<u>276,688</u>
EXPENDITURES				
Current				
Instructional services	3,399,343	3,327,877	3,399,099	(71,222)
Supporting services				
Operation and maintenance of facilities	745,565	766,167	920,077	(153,910)
Transportation	248,000	248,000	246,269	1,731
Debt service				
Interest and other charges	179,755	179,755	183,514	(3,759)
Principal	68,245	68,245	68,912	(667)
Capital outlays	174,300	182,511	291,752	(109,241)
Contingency reserve	304,751	397,762	-	397,762
TOTAL EXPENDITURES	<u>5,119,959</u>	<u>5,170,317</u>	<u>5,109,623</u>	<u>60,694</u>
NET CHANGE IN FUND BALANCE	\$ <u>-</u>	\$ <u>-</u>	\$ <u>337,382</u>	\$ <u>337,382</u>

See accompanying notes to the required supplementary information.

ODYSSEY CHARTER SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2012

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	\$ 337,382
Net decrease in prepaids	5,812
Net increase in accounts payable	35,615
Net increase in accrued liabilities	(105,640)
Net increase in deferred revenue	<u>26,555</u>
 CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS	 \$ <u>299,724</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 basic financial statements of the Odyssey Charter School as of and for the year ended June 30, 2012, and have issued our report thereon dated October 25, 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

Management of the Odyssey Charter School is responsible for establishing and maintaining effective 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 opinion 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 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, the Office of the Governor, the Office of the Controller General, the Office of Attorney General, the Office of Management and Budget, the 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.

Maulie Falconiero + Company LLP

West Chester, Pennsylvania
October 25, 2012

ODYSSEY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012

None.