

ODYSSEY CHARTER SCHOOL

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2014



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

ODYSSEY CHARTER SCHOOL
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YEAR ENDED JUNE 30, 2014

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Odyssey Charter School
Wilmington, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Odyssey Charter School (a component unit of the State of Delaware) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Odyssey Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Odyssey Charter School's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Directors
Odyssey Charter School
Wilmington, Delaware

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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 9 and budgetary comparison information on pages 25 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014, 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* in considering the Odyssey Charter School's internal control over financial reporting and compliance.

Maillie LLP

West Chester, Pennsylvania
October 17, 2014

ODYSSEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

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, 2014, its eighth year of operation.

FINANCIAL HIGHLIGHTS

Governmental Activities

- The assets of the School at the close of the fiscal year are \$214,985 (net position), a decrease of \$1,300,576 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 deficit of \$616,030, a decrease of \$1,179,542 from the previous year. Of this amount, \$261,938 is nonspendable and \$(877,968) is unassigned. The fund balance represents -5% of total General Fund expenditures.

Long-Term Debt

- The School's total debt decreased to \$3,067,509 at June 30, 2014, a decrease of \$1,572,704. This decrease is primarily a result of the sale of the property known as Mundy Farm.

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 Position (page 10) presents information on all of the School's assets, liabilities and deferred inflow of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators as to whether the financial position of the School is improving or deteriorating.

The Statement of Activities (page 11) presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position 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, 2014

Fund Financial Statements: The fund financial statements begin on page 12 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 13) to explain the differences between the Governmental Fund Balance Sheet and the Statement of Net Position and between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities (page 15). 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 16 of this report.

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

ODYSSEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Net Position: A year-to-year comparison of net position is as follows:

Odyssey Charter School's Net Position
As of June 30, 2014 and 2013

	Governmental Activities	
	2014	2013
ASSETS		
Current and other assets	\$ 690,446	\$ 1,443,889
Capital assets	3,898,524	5,627,046
TOTAL ASSETS	<u>4,588,970</u>	<u>7,070,935</u>
LIABILITIES		
Long-term liabilities	2,913,258	4,039,722
Other liabilities	1,460,727	1,480,868
TOTAL LIABILITIES	<u>4,373,985</u>	<u>5,520,590</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>34,784</u>
NET POSITION		
Net investment in capital assets	831,015	1,215,284
Unrestricted	(616,030)	300,277
TOTAL NET POSITION	<u>\$ 214,985</u>	<u>\$ 1,515,561</u>

The largest component of the School's net position, \$3,898,524, 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 (\$3,067,509). The decrease in the net investment in capital assets of \$384,269 was caused by a combination of acquisition of capital assets, sale and disposition of capital assets, depreciation expense, current year repayment and proceeds of long-term debt. The unrestricted net position of governmental activities increased due to the increase in current year change in net position.

Other liabilities decreased by \$20,141. This was due to a decrease in the current portion of long-term debt resulting from a balloon payment paid in 2014.

ODYSSEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

Odyssey Charter School's Change in Net Position
Years Ended June 30, 2014 and 2013

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

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
REVENUES		
Charges to school districts	\$ 2,578,910	\$ 2,270,888
Grants and contributions not restricted to specific programs	4,710,370	3,966,982
Other local sources	34,839	12,313
Program revenues		
Charges for services	272,211	221,542
Operating grants and contributions	<u>338,614</u>	<u>315,053</u>
TOTAL REVENUES	<u>7,934,944</u>	<u>6,786,778</u>
EXPENSES		
Instructional services	6,783,715	4,870,412
Support services		
Operation and maintenance of facilities	1,651,253	1,208,028
Transportation	431,589	274,634
Interest on long-term debt	<u>187,461</u>	<u>133,498</u>
TOTAL EXPENSES	<u>9,054,018</u>	<u>6,486,572</u>
SPECIAL ITEM		
Loss on sale of property	<u>(181,502)</u>	<u>-</u>
CHANGE IN NET POSITION	(1,300,576)	300,206
NET POSITION AT BEGINNING OF YEAR	<u>1,515,561</u>	<u>1,215,355</u>
NET POSITION AT END OF YEAR	<u>\$ 214,985</u>	<u>\$ 1,515,561</u>

ODYSSEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

FINANCIAL ANALYSIS OF THE SCHOOL'S FUND

As the School completed the fiscal year, its Governmental Fund, the General Fund, reported a fund deficit of \$616,030.

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 deficit was \$616,030, a decrease of \$1,179,542 compared to fiscal year 2013.

Odyssey Charter School General Fund Budgetary Highlights

The School adopted the fiscal year 2014 budget in 2013, and did not amend it during the year. The final budget contained \$8,186,614 of revenues and \$8,017,186 of expenditures. The actual results were revenues of \$321,319 less than budget and expenditures of \$615,506 greater than budget.

- School district receipts were under budget by \$447,000 because we projected enrollment of 780 and ended up with an actual enrollment of 702.
- Salaries and benefits exceeded budget by \$473,000 because all employees were given a 5% retroactive increase to match the salaries of their peers in Red Clay School District. This was done to bring our faculty and staff up to the current market salary rate, which plays a critical factor in retaining quality educators and staff.
- Student transportation exceeded budget by \$40,000 because an additional bus was added to accommodate the increase in students requiring transportation. We also added a shuttle bus to accommodate transportation needs for before and after care.
- Miscellaneous expense was under budget by \$95,000 due to items being documented in a specific, rather than miscellaneous category. The school significantly curbed non-budgeted, or miscellaneous expenses.
- Rent exceeded budget by \$492,000 due to the lease agreement with Barley Mill, LLC for the use of Building 20 at Barley Mill Plaza, which the school began paying in March 2014.
- The contingency reserve was under budget because the school did not need to use it.

ODYSSEY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the School had invested \$3,898,524, net of accumulated depreciation, in its capital assets. The following table presents 2014 asset balances compared to 2013 balances; as further detailed in Note C.

	Governmental Activities	
	2014	2013
Land	\$ 192,945	\$ 2,014,641
Construction in progress	680,704	272,691
Building and leasehold improvements	2,799,988	3,149,328
Furniture and fixtures	163,965	100,766
Books	60,922	89,620
	<u>\$ 3,898,524</u>	<u>\$ 5,627,046</u>

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 \$3,067,509.

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 POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 414,634
Receivables	13,874
Prepaid expenses	<u>261,938</u>
Capital assets	
Nondepreciable	873,649
Depreciable	4,066,639
Accumulated depreciation	<u>(1,041,764)</u>
TOTAL CAPITAL ASSETS	<u>3,898,524</u>
TOTAL ASSETS	<u>\$ 4,588,970</u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable and accrued expenses	\$ 1,227,936
Loans payable	
Portion due or payable within one year	154,251
Portion due or payable after one year	2,913,258
Accrued interest	7,646
Unearned revenue	<u>70,894</u>
TOTAL LIABILITIES	<u>4,373,985</u>
NET POSITION	
Net investment in capital assets	831,015
Unrestricted	<u>(616,030)</u>
TOTAL NET POSITION	<u>214,985</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,588,970</u>

See accompanying notes to the basic financial statements.

ODYSSEY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ 6,783,715	\$ 272,211	\$ 338,614	\$ -	\$ (6,172,890)
Supporting services					
Transportation	431,589	-	-	-	(431,589)
Operation and maintenance of facilities	1,651,253	-	-	-	(1,651,253)
Interest on long-term debt	187,461	-	-	-	(187,461)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 9,054,018	\$ 272,211	\$ 338,614	\$ -	(8,443,193)
GENERAL REVENUES					
Charges to school districts					2,578,910
Grants and contributions not restricted to specific programs					4,710,370
Miscellaneous					34,839
SPECIAL ITEM					(181,502)
Loss on sale of property					14,466,736
TOTAL GENERAL REVENUES AND SPECIAL ITEM					(1,300,576)
CHANGE IN NET POSITION					1,515,561
NET POSITION AT BEGINNING OF YEAR					\$ 214,985
NET POSITION AT END OF YEAR					

See accompanying notes to the basic financial statements.

ODYSSEY CHARTER SCHOOL**BALANCE SHEET****GOVERNMENTAL FUND****JUNE 30, 2014**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 414,634
Receivables	13,874
Prepaid expenses	<u>261,938</u>
TOTAL ASSETS	<u>\$ 690,446</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 176,971
Accrued salaries and related costs	1,050,965
Accrued interest	7,646
Unearned revenue	<u>70,894</u>
TOTAL LIABILITIES	<u>1,306,476</u>
FUND BALANCE	
Nonspendable, prepaid items	261,938
Unassigned	<u>(877,968)</u>
TOTAL FUND BALANCE	<u>(616,030)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 690,446</u>

See accompanying notes to the basic financial statements.

ODYSSEY CHARTER SCHOOL
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

TOTAL GOVERNMENTAL FUND BALANCE \$ (616,030)

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund.

These assets consist of:

Nondepreciable	873,649
Depreciable	4,066,639
Accumulated depreciation	(1,041,764)

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	(154,251)
Due after one year	<u>(2,913,258)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 214,985

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, 2014

	<u>General Fund</u>
REVENUES	
State support	\$ 4,710,370
Federal support	164,534
Charges to school districts	2,578,910
Charges for services and contributions	446,291
Miscellaneous	<u>33,590</u>
TOTAL REVENUES	<u>7,933,695</u>
EXPENDITURES	
Current	
Instructional services	6,449,785
Supporting services	
Operation and maintenance of facilities	1,526,508
Transportation	431,589
Debt service	
Interest and other charges	187,461
Principal	2,347,704
Capital outlays	<u>763,688</u>
TOTAL EXPENDITURES	<u>11,706,735</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(3,773,040)</u>
OTHER FINANCING SOURCES (USES)	
Proceeds from long-term debt	775,000
Proceeds from sale of property	2,000,000
Loss from sale of property	<u>(181,502)</u>
TOTAL FINANCING SOURCES (USES)	<u>2,593,498</u>
NET CHANGE IN FUND BALANCE	(1,179,542)
FUND BALANCE AT BEGINNING OF YEAR	<u>563,512</u>
FUND BALANCE AT END OF YEAR	\$ <u><u>(616,030)</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, 2014

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND \$ (1,179,542)

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	763,688
Depreciation and amortization	(457,426)

Proceeds from notes payable is a revenue item in the Governmental Fund, but this amount increases long-term liabilities in the statement of net position. (775,000)

Repayment of debt is an expenditure in the Governmental Fund, but the repayment reduces long-term liabilities in the statement of net position. 2,347,704

Proceeds from the sale of property is a revenue in the Governmental Fund but resulted in reduction of capital assets in the statement of net position. (2,000,000)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (1,300,576)

See accompanying notes to the basic financial statements.

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

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 6.

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 position 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, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014.

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.

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **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, 2014.
- **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, 2014.
- **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.

Unearned Revenue

Unearned revenue includes federal grant funds received that have not been spent as of the financial statement date.

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 2010, 2011 and 2012 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.

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE B - CASH AND CASH EQUIVALENTS

At June 30, 2014, the School has a cash and cash equivalents balance of \$414,634. Of that amount, \$362,416 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. Because the State of Delaware investment pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is deemed to be a cash equivalent.

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, 2014, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 2,014,641	\$ -	\$ 1,821,696	\$ 192,945
Construction in progress	272,691	619,991	211,978	680,704
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	2,287,332	619,991	2,033,674	873,649
Capital assets being depreciated				
Building and leasehold improvements	3,896,647	2,750	635,606	3,263,791
Furniture and equipment	307,050	113,047	-	420,097
Books	354,851	27,900	-	382,751
TOTAL CAPITAL ASSETS BEING DEPRECIATED	4,558,548	143,697	635,606	4,066,639
Accumulated depreciation				
Building and leasehold improvements	(747,319)	(352,090)	(635,606)	(463,803)
Furniture and equipment	(206,284)	(49,848)	-	(256,132)
Books	(265,231)	(56,598)	-	(321,829)
TOTAL ACCUMULATED DEPRECIATION	(1,218,834)	(458,536)	(635,606)	(1,041,764)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	3,339,714	(314,839)	-	3,024,875
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	\$ 5,627,046	\$ 305,152	\$ 2,033,674	\$ 3,898,524

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE C - CAPITAL ASSETS (Continued)

Depreciation expense is \$458,536 for the year ended June 30, 2014, of which \$335,040 is included in instructional and \$123,496 is included in supporting services on the statement of activities.

NOTE D - LEASING ARRANGEMENTS

The School leases its school building at Barley Mill Plaza under an operating lease with Barley Mill, LLC. The lease began March 1, 2014, and has a term of one year with an option to renew annually. Rent expense for the year ended June 30, 2014, was \$287,772.

The School also leases a modular building under a term of three years. The lease provides for monthly payments of \$3,498, beginning in August 2013 and expiring in August 2016. The School is required to make a one-time payment of \$90,945 for the delivery and installation of the building.

Rental expense for the year ended June 30, 2014, was \$512,417.

The following is a schedule by years of future minimum rentals under the leases at June 30, 2014:

<u>Year Ending</u> <u>June 30,</u>	
2015	\$ 823,307
2016	41,976
2017	<u>5,247</u>
	<u>\$ 870,530</u>

NOTE E - PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. The State contributed 20.28% for fiscal 2014 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 \$529,872.

Certain significant plan provisions are as follows:

- **Early Retirement**
 - 15 years service - age 55
 - 25 years service - any age

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE E - PENSION PLAN (Continued)

- **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.

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.

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE H - DONATED SERVICES

The School received instructional services from Greek teachers. These services were paid by the Embassy of Greece. For fiscal year 2014, the estimated fair market value of the donated services was \$55,000.

NOTE I - LOANS PAYABLE

Loans payable as of June 30, 2014, are as follows:

Term loan with a bank, interest of 4.5% per annum, paid in monthly installments of \$2,544.94, with the remaining balance due March 2019; loan is subject to certain financial covenants, one of which was not met as of June 30, 2014; as a result, the bank may impose a default interest rate by adding an additional 2.0% margin, however, this has not been imposed at this time

\$ 396,853

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%; loan is subject to certain financial covenants, one of which was not met as of June 30, 2014; as a result, the bank may impose a default interest rate by adding an additional 4.0% margin, however, this has not been imposed at this time

2,086,086

Term loan with a bank, interest at prime plus 0.5% per annum (4.50% at June 30, 2014), paid in monthly installments of \$7,002.61, with the remaining balance June 2019, secured by the building; loan is subject to certain financial covenants, one of which was not met as of June 30, 2014; as a result, the bank may impose a default interest rate by adding an additional 2.0% margin, however, this has not been imposed at this time

375,000

Term loan with a bank, interest at prime plus 0.5% per annum (4.25% at June 30, 2014), paid in monthly installments of \$2,363.08, with the remaining balance due May 2023; loan is subject to certain financial covenants, one of which was not met as of June 30, 2014; as a result, the bank may impose a default interest rate by adding an additional 2.0% margin, however, this has not been imposed at this time

209,570

3,067,509

(154,251)

Current portion

\$ 2,913,258

ODYSSEY CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE I - LOANS PAYABLE (Continued)

Debt service activity for the year ended June 30, 2014, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Loans payable	\$ <u>4,640,213</u>	\$ <u>775,000</u>	\$ <u>(2,347,704)</u>	\$ <u>3,067,509</u>

Annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 154,251	\$ 163,373	\$ 317,624
2016	162,034	155,570	317,604
2017	170,274	147,321	317,595
2018	178,921	138,665	317,586
2019	2,300,047	99,337	2,399,384
Thereafter	<u>101,982</u>	<u>9,042</u>	<u>111,024</u>
	\$ <u>3,067,509</u>	\$ <u>713,308</u>	\$ <u>3,780,817</u>

NOTE J - SUBSEQUENT EVENT

The School has plans to construct a \$46,000,000 K through 12 campus at Barley Mill Plaza in Wilmington, Delaware. The project is in the early stages and the school is in the process of securing the financing. The current financing proposal calls for the School to be reimbursed approximately \$1,000,000 for costs that have been incurred to date and are reflected in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ODYSSEY CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final	Budgetary Basis	Positive (Negative)
CASH INFLOWS				
State receipts	\$ 4,645,069	\$ 4,645,069	\$ 4,710,370	\$ 65,301
Grants (local and federal)	207,362	207,362	158,537	(48,825)
Interest income FSF	4,178	4,178	2,948	(1,230)
School district receipts	3,026,430	3,026,430	2,578,910	(447,520)
Before and after care	211,925	211,925	268,749	56,824
Milk income	22,474	22,474	21,059	(1,415)
Fund-raising/donations	55,172	55,172	94,080	38,908
Rebates/commissions	14,004	14,004	30,642	16,638
TOTAL CASH INFLOWS	8,186,614	8,186,614	7,865,295	(321,319)
CASH OUTFLOWS				
Payroll and related costs	5,227,296	5,227,296	5,700,172	(472,876)
Therapists/psychologist	155,826	155,826	147,723	8,103
Student testing	8,182	8,182	14,296	(6,114)
Student transportation	383,585	383,585	423,272	(39,687)
Field trips	2,997	2,997	5,914	(2,917)
Advertising	3,300	3,300	4,776	(1,476)
Professional services	122,165	122,165	143,788	(21,623)
Telephone/T1 line	10,020	10,020	10,709	(689)
Alarm/monitor/fire	3,635	3,635	2,425	1,210
Office supplies	33,180	33,180	44,432	(11,252)
Instructional/school supplies	101,422	101,422	134,271	(32,849)
Medical supplies	2,400	2,400	861	1,539
Milk	16,800	16,800	34,015	(17,215)
Miscellaneous	112,263	112,263	17,264	94,999
Postage	1,192	1,192	5,718	(4,526)
Copiers	19,669	19,669	19,242	427
Replacement/miscellaneous books	2,520	2,520	3,015	(495)
Small equipment/furniture	9,000	9,000	3,160	5,840
Utilities	84,479	84,479	91,055	(6,576)
Water and sewer	9,852	9,852	9,819	33
Cleaning services	124,910	124,910	122,294	2,616
Janitorial supplies	15,108	15,108	19,083	(3,975)
Trash removal	11,886	11,886	15,565	(3,679)
Exterminating services	3,425	3,425	2,690	735
Landscaping/walkway/fence	6,000	6,000	6,053	(53)
Insurance	20,664	20,664	29,669	(9,005)
Travel/conferences	7,331	7,331	5,883	1,448
Building maintenance and repairs	58,596	58,596	69,784	(11,188)
Capital additions	457,690	457,690	221,441	236,249
Rent	568,951	568,951	1,060,680	(491,729)
Modular units	-	-	98,626	(98,626)
Debt service	208,729	208,729	164,997	43,732
Contingency reserve	224,113	224,113	-	224,113
TOTAL CASH OUTFLOWS	8,017,186	8,017,186	8,632,692	(615,506)
EXCESS/(DEFICIENCY) OF INFLOWS OVER OUTFLOWS	\$ 169,428	\$ 169,428	\$ (767,397)	\$ (936,825)

ODYSSEY CHARTER SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014

NOTE A - BASIS OF ACCOUNTING

The School's budget is prepared on the cash basis of accounting. The amount reported as "excess (deficiency) of inflows over outflows" 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 14.

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.

EXCESS (DEFICIENCY) OF INFLOWS OVER OUTFLOWS	\$ (767,397)
Loss on sale of property	(181,502)
Net increase in prepaids	213,052
Decrease in receivables	(17,596)
Net increase in accounts payable	(131,647)
Net increase in accrued liabilities	(300,449)
Net decrease in deferred revenue	<u>5,997</u>
 CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS	 \$ <u><u>(1,179,542)</u></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.

***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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Odyssey Charter School as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Odyssey Charter School's basic financial statements, and have issued our report thereon dated October 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Odyssey Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Odyssey Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Odyssey Charter School's internal control.

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 material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompany schedule of findings and responses to be a material weakness.

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 from 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*.

Odyssey Charter School's Response to Findings

The Odyssey Charter School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Odyssey Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maillie LLP

West Chester, Pennsylvania
October 17, 2014

ODYSSEY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014

FINDINGS - FINANCIAL STATEMENTS AUDIT

Financial Closing Process

Criteria: The reconciliation and financial closing processes are important steps to ensure proper inclusion of all financial activity in the financial statements.

Condition: We noted several instances of incorrectly recorded transactions during the review of the fiscal year 2014 activity.

- Journal entries proposed from the prior year audit were not posted correctly to the general ledger.
- The FSF cash accounts were not fully reconciled, requiring an adjustment of approximately \$133,000 for grant funds received.
- The School uses a transfer in and a transfer out account in order to record transfer of funds between FSF cash and a checking account held by the School at an outside banking institution. The transfers in/out accounts did not net to zero due to improper recording of loan proceeds received and activity in an endowment fund that was not recorded correctly.

Effect or Potential Effect: Without an appropriate system of monthly reconciliations and a good financial statement closing process, it is possible incorrect information may exist in the financial statements and not be detected by management.

Recommendation: Management should review its policies and procedures regarding monthly reconciliations and the financial closing process to ensure all financial activity is being properly recorded.

Responsible Official's Response: We concur with the finding regarding the financial statement closing process. Odyssey Charter School's business office has undergone significant changes in personnel subsequent to year end. As a result, we are in the process of providing training for all business office personnel as well as developing new policies and procedures to ensure that reconciliations and the financial statement closing processes are efficient, correct and complete.