

**ACADEMY OF DOVER CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Dover, Delaware**

FINANCIAL STATEMENTS

JUNE 30, 2012

ACADEMY OF DOVER CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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ACADEMY OF DOVER CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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INDEPENDENT AUDITORS' REPORT

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October 24, 2012

Board of Directors
Academy of Dover Charter School
Dover, Delaware

We have audited the accompanying financial statements of the governmental activities and the major fund of the Academy of Dover Charter School (the "School"), Dover, Delaware (a component unit of the State of Delaware) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the 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 Academy of Dover Charter School as of June 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note J to the financial statements, the School has suffered recurring losses from operations in prior years and has a deficiency in net position which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note N. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2012, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BARBACANE
THORNTON
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Academy of Dover Charter School

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 20 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Government Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy of Dover Charter School's financial statements. The schedules on pages 21 - 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations," and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Academy of Dover Charter School has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

BASIC FINANCIAL STATEMENTS

**ACADEMY OF DOVER CHARTER SCHOOL
STATEMENTS OF NET POSITION
JUNE 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 234,455	\$ 122,659
Due from other governments	20,116	72,143
Total Current Assets	<u>254,571</u>	<u>194,802</u>
NONCURRENT ASSETS:		
Capital assets, net of depreciation	<u>229,040</u>	<u>249,222</u>
TOTAL ASSETS	<u><u>\$ 483,611</u></u>	<u><u>\$ 444,024</u></u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 24,034	\$ 13,844
Accrued salaries and related costs	182,803	216,899
Due to State of Delaware - pension costs	27,301	32,839
Total Current Liabilities	<u>234,138</u>	<u>263,582</u>
NONCURRENT LIABILITIES:		
Notes payable	<u>971,807</u>	<u>971,807</u>
Total Noncurrent Liabilities	<u>971,807</u>	<u>971,807</u>
TOTAL LIABILITIES	<u>1,205,945</u>	<u>1,235,389</u>
NET POSITION (DEFICIT):		
Invested in capital assets	229,040	284,381
Unrestricted (Deficit)	<u>(951,374)</u>	<u>(1,075,746)</u>
TOTAL NET DEFICIT	<u>(722,334)</u>	<u>(791,365)</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 483,611</u></u>	<u><u>\$ 444,024</u></u>

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position Total
GOVERNMENTAL ACTIVITIES:					
Instructional services		\$ -	\$ 531,891	\$ -	\$ (1,614,994)
Support services:					
Operation and maintenance of facilities	(706,014)	-	-	-	(706,014)
Transportation	(202,466)	-	201,669	-	(797)
School lunch services	(104,356)	41,161	174,064	-	110,869
TOTAL GOVERNMENTAL ACTIVITIES	\$ (3,159,721)	\$ 41,161	\$ 907,624	\$ -	(2,210,936)
GENERAL REVENUES:					
Charges to school districts					329,463
State aid not restricted to specific purposes					1,914,176
Earnings on cash and investments					1,531
Miscellaneous revenues					34,797
TOTAL GENERAL REVENUES					2,279,967
CHANGE IN NET POSITION					69,031
NET DEFICIT, BEGINNING OF YEAR					(791,365)
NET DEFICIT, END OF YEAR					\$ (722,334)

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

		Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position	Total
GOVERNMENTAL ACTIVITIES:					
Instructional services	\$ (2,231,891)	\$ 510,650	\$ -	\$ (1,721,241)	
Support services:					
Operation and maintenance of facilities	(621,296)	-	-	(621,296)	
Transportation	(200,494)	202,144	-	1,650	
School lunch services	(79,737)	154,765	-	88,346	
TOTAL GOVERNMENTAL ACTIVITIES	\$ (3,133,418)	\$ 867,559	\$ -	(2,252,541)	
GENERAL REVENUES:					
Charges to school districts				318,094	
State aid not restricted to specific purposes				1,835,011	
Earnings on cash and investments				14,538	
Miscellaneous revenues				31,285	
TOTAL GENERAL REVENUES				2,198,928	
CHANGE IN NET POSITION				(53,613)	
NET DEFICIT, BEGINNING OF YEAR				(737,752)	
NET DEFICIT, END OF YEAR				\$ (791,365)	

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL
BALANCE SHEETS - GOVERNMENTAL FUND
JUNE 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 234,455	\$ 122,659
Due from other governments	<u>20,116</u>	<u>72,143</u>
TOTAL ASSETS	<u><u>\$ 254,571</u></u>	<u><u>\$ 194,802</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$ 24,034	\$ 13,844
Accrued salaries and related costs	182,803	216,899
Due to State of Delaware - pension costs	<u>27,301</u>	<u>32,839</u>
Total Liabilities	<u><u>234,138</u></u>	<u><u>263,582</u></u>
FUND BALANCE (DEFICIT):		
Unassigned (Deficit)	<u>20,433</u>	<u>(68,780)</u>
Total Fund Balance (Deficit)	<u><u>20,433</u></u>	<u><u>(68,780)</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 254,571</u></u>	<u><u>\$ 194,802</u></u>

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND TO
STATEMENT OF NET POSITION
JUNE 30, 2012**

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 20,433

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.

229,040

Long-term debt liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Notes payable

(971,807)

TOTAL NET DEFICIT - GOVERNMENTAL ACTIVITIES

\$ (722,334)

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
FOR THE YEARS ENDED JUNE 30, 2012 and 2011**

	2012	2011
REVENUES		
Charges to school districts	\$ 329,463	\$ 318,094
State aid	2,115,845	2,037,155
Federal aid	531,891	510,650
Earnings on cash and investments	1,531	14,538
School lunch services - grants	174,064	154,765
School lunch services - charges for services	41,161	13,318
Miscellaneous	34,797	31,285
TOTAL REVENUES	3,228,752	3,079,805
EXPENDITURES		
Current:		
Instruction	2,116,962	2,203,334
Operation and maintenance of facilities	691,657	611,840
Transportation	202,466	200,494
School lunch services	104,356	79,737
Capital outlays:		
Property	-	41,747
Equipment	8,633	28,542
Computer equipment and software	15,465	2,883
TOTAL EXPENDITURES	3,139,539	3,168,577
NET CHANGE IN FUND BALANCE	89,213	(88,772)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	(68,780)	19,992
FUND BALANCE (DEFICIT), END OF YEAR	\$ 20,433	\$ (68,780)

The accompanying notes are an integral part of these financial statements.

**ACADEMY OF DOVER CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND \$ 89,213

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 24,098	
Depreciation expense	<u>(44,280)</u>	<u>(20,182)</u>

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 69,031

The accompanying notes are an integral part of these financial statements.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy of Dover Charter School (the "School") have been prepared in conformity with generally accepted accounting principles as applied to local governmental 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 2003, was established to provide a unique learning environment to students. The School is 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 operations. The School has no component units for which it is considered to be financially accountable.

Entity-wide and Fund Financial Statements

The entity-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School.

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

Separate financial statements are provided for the governmental fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Entity-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 the School 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.

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 and capital leases are recorded only when payment is due.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The School reports only one fund, which is the general fund (a governmental fund type).

Cash and Cash Equivalents

Except for the petty cash account, cash and cash equivalents of the School are controlled by the State Treasurer's Office in Dover, Delaware. The petty cash account is controlled by the School. The School's cash and cash equivalents are considered to be cash on hand and demand deposits.

Capital Assets

Capital assets, which include furniture and equipment, are reported in the entity-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. This is a change from prior years when the threshold was set at \$1,000. The cumulative effect of the change is immaterial to the financial statements. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

Furniture and equipment of the School are depreciated using the straight-line method over the estimated lives of the assets, which range from three to 20 years.

Compensated Absences

Vacation - Employees are not paid for unused vacation upon resignation or termination, unless otherwise stated in the employee contract. Twelve-month salaried employees are entitled up to 12 days of vacation each year.

Sick and Personal Leave - Employees are not paid for unused sick or personal leave upon resignation or termination. Sick leave allowances are as follows: 10 days for 10-month salaried employees and 12 days for 12-month salaried employees. Three sick days can be taken as personal days for both 10-month and 12-month salaried employees.

Fund Equity

Fund balance will be displayed in the following classification (if applicable) depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of Directors. The Board is the highest level of decision-making authority for the Academy of Dover Charter School. Commitments may be established, modified or rescinded only through resolutions approved by the Board of Directors.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Principal may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the School considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Early Implementation of GASB Statements

During the current year, the School elected to implement GASB Statement No. 61, "The Financial Reporting Entity: Omnibus." This new guidance affects the treatment of component units within the financial statements. The implementation of this new Statement did not have an effect on the School's current year financial statements.

During the current year, the School elected to implement GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This new guidance codifies pre-1989 standards set by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA), which are followed for entity-wide reporting. The School's notes to the financial statements have been revised to reflect the level of disclosure required by the new Statement.

During the current year, the School elected to implement GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position." This new guidance creates two sections to the balance sheet (deferred outflows and deferred inflows) and revises other entity-wide terminology as a result of this change. The School's entity-wide statements have been revised to reflect the new terminology.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B CASH AND CASH EQUIVALENTS

At June 30, 2012 and 2011, the School had a cash equivalents balance of \$234,455 and \$122,659, respectively. Of those amounts, \$233,983 and \$122,438, respectively, were part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and 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 of Delaware 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 of Delaware. 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.

At June 30, 2012 and 2011, respectively, the reported amount of the School's deposits not held by the State Treasurer's Office was \$472 and \$221 and the bank balance was \$584 and \$540, all of which was covered by federal depository insurance.

NOTE C INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units represent receivables for revenues earned by the School. At June 30, intergovernmental receivables are as follows:

<u>Description</u>	<u>2012</u>	<u>2011</u>
Passed through the State of Delaware:		
Local government - food service	\$ 14,207	\$ 12,444
Local government - school districts	-	4,865
Federal government	<u>5,909</u>	<u>54,834</u>
Total intergovernmental receivables	<u>\$ 20,116</u>	<u>\$ 72,143</u>

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE D CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2012 and 2011 is as follows:

	Year Ended June 30, 2012			Ending Balances
	Beginning Balances	Increases	Decreases	
General capital assets being depreciated:				
Furniture and equipment	\$ 702,841	\$ 24,098	\$ -	\$ 726,939
Accumulated depreciation	<u>(453,619)</u>	<u>(44,280)</u>	<u>-</u>	<u>(497,899)</u>
Total capital assets being depreciated, net	<u>\$ 249,222</u>	<u>\$ (20,182)</u>	<u>\$ -</u>	<u>\$ 229,040</u>

	Year Ended June 30, 2011			Ending Balances
	Beginning Balances	Increases	Decreases	
General capital assets being depreciated:				
Furniture and equipment	\$ 629,669	\$ 73,172	\$ -	\$ 702,841
Accumulated depreciation	<u>(415,606)</u>	<u>(38,013)</u>	<u>-</u>	<u>(453,619)</u>
Total capital assets being depreciated, net	<u>\$ 214,063</u>	<u>\$ 35,159</u>	<u>\$ -</u>	<u>\$ 249,222</u>

For the year ended June 30, 2012, depreciation expense of \$29,923 and \$14,357 was included in instructional services, and operation and maintenance of facilities, respectively. For the year ended June 30, 2011, depreciation expense of \$28,557 and \$9,456 was included in instructional services, and operation and maintenance of facilities, respectively.

NOTE E OPERATING LEASES

The School leases its facilities under an operating leasing arrangement expiring November 30, 2020. The facility lease started December 1, 2010. The base year rental is \$514,896, inclusive of maintenance charges. The rent and maintenance fees will increase beginning December 1, 2013 and each year thereafter. The lease contains a purchase option that may be exercised by the School only on a date not earlier than November 10, 2015.

Rent expense for the years ended June 30, 2012 and 2011 was \$514,896 and \$471,189, respectively, all of which was included in operation and maintenance of facilities.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE E OPERATING LEASES (cont'd)

The future minimum lease obligations are as follows:

Year Ending June 30,

2013	\$ 514,896
2014	521,105
2015	531,854
2016	542,776
2017	553,887
2018-2021	<u>1,977,506</u>
Total	<u>\$ 4,642,024</u>

NOTE F NOTES PAYABLE

The School signed three notes in fiscal year 2005 with its management company, Mosaica Education, Inc. ("MEI"). The first note, representing management fees of \$156,856 for fiscal year 2004, bears interest at the rate of six percent. Monthly payments of \$4,772 were scheduled to begin July 1, 2006, with final payment due May 1, 2009. The second, representing management fees of \$185,067 for fiscal year 2005, bears interest at the rate of six percent. Monthly payments of \$5,630 were scheduled to begin July 1, 2006, with final payment due May 1, 2009. The third note, representing repayment of amounts loaned to the School and a buyback of supplies of \$168,468, is a noninterest-bearing note. Monthly payments of \$4,680 were scheduled to begin July 1, 2006, with final payment due May 1, 2009.

On February 1, 2010, the Court of Chancery of the State of Delaware ordered the confirmation of the May 9, 2008 American Arbitration Association's Finding and Award of Arbitrator issued in favor of MEI, as described in Note K.

Note payable activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Notes payable	<u>\$ 971,807</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 971,807</u>

Note payable activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Notes payable	<u>\$ 971,807</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 971,807</u>

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE G PENSION PLAN

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan, which is a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"). The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to Chapter 55, Title 29 of the Delaware Code.

All full-time and regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability and death benefits. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service - age 55
 - b. 25 years service - any age
- Service retirement:
 - a. 15 years service - age 60 if hired prior to January 1, 2012;
20 years service - age 60 if hired on or after January 1, 2012
 - b. 30 years service - any age
 - c. 5 years service - age 62 if hired prior to January 1, 2012;
5 years service - age 65 if hired on or after January 1, 2012
- Disability retirement:
 - a. 5 consecutive 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. If hired after January 1, 2012, an employee can vest pension rights after ten years, five of which must be consecutive.

The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904, or by calling 1-800-722-7300.

Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's contribution to the State PERS for the years ended June 30, 2012, 2011 and 2010 was \$214,961, \$207,518 and \$159,797, respectively.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE H COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. Refer to Notes K and L for details.

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 are 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 I 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 the past year.

NOTE J GOING CONCERN

The School has suffered recurring losses from operations and continues to have an unrestricted net asset deficit balance. The unrestricted net asset deficit balance is the result of reflecting the February 10, 2010 award in favor of the previous management company, as described in Note K. This issue creates an uncertainty about the School's ability to continue as a going concern. See Note N for further information.

NOTE K TERMINATION OF MANAGEMENT CONTRACT

The School terminated its contract with MEI on June 19, 2006. MEI commenced arbitration seeking damages for wrongful termination and for payment of the School's promissory notes. After a trial and post-hearing submissions, the Arbitrator awarded \$971,807 plus interest. The attorneys for the School have advised the School and the Delaware Department of Education that Delaware law prohibits the payment of any amount to MEI, notwithstanding the Arbitrator's award and any judgment entered thereon, except to the extent of any surplus remaining at the end of the year in which all educational expenses have been met. On July 1, 2009, the Court of Chancery confirmed the arbitration award, advising the School that its position could be asserted at another time.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE K TERMINATION OF MANAGEMENT CONTRACT (cont'd)

On February 1, 2010, the Court of Chancery of the State of Delaware ordered the confirmation of the May 9, 2008, American Arbitration Association's Finding and Award of Arbitrator issued in favor of MEI in the amount of \$971,807. Of the outstanding balance of \$971,807, \$740,000 bears interest at a rate of 18 percent per annum from May 9, 2008; \$222,725 bears interest at the maximum rate permitted under provisions of 29 Del. C. Section 6516(d)(4) of 12 percent from May 9, 2008; and \$9,082 bears interest at the rate of five percent over the federal reserve discount rate from May 9, 2008, which was 7.25 percent. Interest on the balance due of \$971,807 has not been reflected in the financial statements.

Based upon current Delaware law, the School believes that no payment is due, except to the extent of any surplus remaining at the end of the year in which all educational expenses have been met.

NOTE L SERVICE AGREEMENT

On June 8, 2011, the School entered into an agreement with Innovative School Development Corporation to provide business and project management services. On June 7, 2011, the School entered into an agreement with Innovative School Development Corporation to provide charter renewal support services. Total expenses for the years ended June 30, 2012 and 2011 were \$119,600 and \$57,748, respectively.

NOTE M EXCESS EXPENDITURES OVER APPROPRIATIONS

The following general fund functions incurred expenditures in excess of budget appropriations in the following amounts for the year ended June 30, 2012:

Travel	\$	3,880
Contractual services	\$	19,162
Transportation - buses	\$	5,000
Food service	\$	16,514
Capital outlays - computer equipment and software	\$	7,582

NOTE N MANAGEMENT'S PLAN REGARDING A GOING CONCERN

The following actions have been taken with the intent of making the Academy of Dover Charter School more financially viable:

- All vendor contracts have been reviewed and, in some cases, changed for cost savings.
- Services such as telephone have been changed over to state bid holders for considerable savings.

ACADEMY OF DOVER CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE N MANAGEMENT'S PLAN REGARDING A GOING CONCERN (cont'd)

- Reading specialist and curriculum positions have been consolidated, eliminating a position.
- The School has implemented a before and after school program, which generates revenue.
- The Assistant Principal position was eliminated.

NOTE O FUND BALANCES

As of June 30, 2012, fund balances are composed of the following:

	<u>General Fund</u>
Unassigned	<u>\$ 20,433</u>

NOTE P SUBSEQUENT EVENTS

The School has evaluated all subsequent events through October 24, 2012, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**ACADEMY OF DOVER CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges to school districts	\$ 337,959	\$ 336,003	\$ 329,463	\$ (6,540)
State aid	2,118,748	2,114,152	2,115,845	1,693
Federal aid	531,891	531,891	531,891	-
Earnings on cash and investments	-	-	1,531	1,531
School lunch services	165,000	175,000	215,225	40,225
Miscellaneous	-	-	34,797	34,797
TOTAL REVENUES	<u>3,153,598</u>	<u>3,157,046</u>	<u>3,228,752</u>	<u>71,706</u>
EXPENDITURES				
Current:				
Salaries	1,161,189	1,196,490	1,175,042	21,448
Employment costs	598,952	585,999	585,681	318
Travel	5,536	5,536	9,416	(3,880)
Contractual services	246,499	219,099	238,261	(19,162)
Communication	12,408	12,408	11,141	1,267
Public utility services	56,000	56,000	50,710	5,290
Insurance	20,000	21,000	20,756	244
Transportation - buses	197,466	197,466	202,466	(5,000)
Land/Building/Facilities	525,520	525,520	514,896	10,624
Repairs and maintenance	19,325	9,359	9,295	64
Food service	87,841	87,841	104,355	(16,514)
Supplies and materials	217,646	214,484	193,422	21,062
Contingency reserve	49,035	49,001	-	49,001
Capital outlays:				
Property	-	-	-	-
Equipment	19,000	41,221	8,633	32,588
Computer equipment and software	7,883	7,883	15,465	(7,582)
TOTAL EXPENDITURES	<u>3,224,300</u>	<u>3,229,307</u>	<u>3,139,539</u>	<u>89,768</u>
NET CHANGE IN FUND BALANCE	<u>\$ (70,702)</u>	<u>\$ (72,261)</u>	89,213	<u>\$ 161,474</u>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR			<u>(68,780)</u>	
FUND BALANCE, END OF YEAR			<u>\$ 20,433</u>	

NOTE: The School's budget is presented on the modified accrual basis of accounting.

SUPPLEMENTARY INFORMATION

**ACADEMY OF DOVER CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2012**

	State Allocation	Local Funding	Federal Funding	Totals
ASSETS				
Cash and cash equivalents	\$ 1,901	\$ 232,554	-	\$ 234,455
Due from other governments	-	14,207	5,909	20,116
TOTAL ASSETS	<u>\$ 1,901</u>	<u>\$ 246,761</u>	<u>\$ 5,909</u>	<u>\$ 254,571</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 19,110	\$ 4,353	\$ 571	\$ 24,034
Accrued salaries and related costs	175,340	2,661	4,802	182,803
Due to State of Delaware - pension costs	26,272	493	536	27,301
TOTAL LIABILITIES	<u>220,722</u>	<u>7,507</u>	<u>5,909</u>	<u>234,138</u>
FUND BALANCES (DEFICIT):				
Unassigned (Deficit)	<u>(218,821)</u>	<u>239,254</u>	<u>-</u>	<u>20,433</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,901</u>	<u>\$ 246,761</u>	<u>\$ 5,909</u>	<u>\$ 254,571</u>

**ACADEMY OF DOVER CHARTER SCHOOL
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Federal Funding</u>	<u>Totals</u>
REVENUES				
Charges to school districts	-	\$ 329,463	-	\$ 329,463
State aid	2,115,845	-	-	2,115,845
Federal aid	-	-	531,891	531,891
Earnings on cash and investments	-	1,531	-	1,531
School lunch services - grants	-	174,064	-	174,064
School lunch services - charges for services	-	41,161	-	41,161
Miscellaneous	8,739	26,058	-	34,797
TOTAL REVENUES	<u>2,124,584</u>	<u>572,277</u>	<u>531,891</u>	<u>3,228,752</u>
EXPENDITURES				
Current:				
Instructional services	1,561,159	131,787	424,016	2,116,962
Operation and maintenance of facilities	511,103	81,730	98,824	691,657
Transportation	87,502	107,498	7,466	202,466
Food services	862	101,909	1,585	104,356
Capital outlays:				
Property	-	-	-	-
Equipment	-	8,633	-	8,633
Computer equipment and software	-	15,465	-	15,465
TOTAL EXPENDITURES	<u>2,160,626</u>	<u>447,022</u>	<u>531,891</u>	<u>3,139,539</u>
NET CHANGE IN FUND BALANCES	(36,042)	125,255	-	89,213
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(182,779)</u>	<u>113,999</u>	<u>-</u>	<u>(68,780)</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (218,821)</u>	<u>\$ 239,254</u>	<u>\$ -</u>	<u>\$ 20,433</u>

**ACADEMY OF DOVER CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

EXPENDITURES

Current:

Salaries	\$ 1,175,042
Employment costs	585,681
Travel	9,416
Contractual services	238,261
Communication	11,141
Public utility services	50,710
Insurance	20,756
Transportation - buses	202,466
Land/building/facilities	514,896
Repairs and maintenance	9,295
Food service	104,355
Supplies and materials	193,422
Property	-
Equipment	8,633
Computer equipment and software	<u>15,465</u>

TOTAL EXPENDITURES

\$ 3,139,539

SINGLE AUDIT INFORMATION

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

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October 24, 2012

Board of Directors
Academy of Dover Charter School
Dover, Delaware

We have audited the financial statements of the governmental activities and the major fund of the Academy of Dover Charter School, Dover, Delaware as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Academy of Dover Charter School

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy of Dover Charter School's basic 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*.

We noted other matters involving internal control and its operation that we have reported to management of the Academy of Dover Charter School in a separate letter dated October 24, 2012.

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

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

October 24, 2012

Board of Directors
Academy of Dover Charter School
Dover, Delaware

We have audited the compliance of the Academy of Dover Charter School, Dover, Delaware with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Academy of Dover Charter School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Academy of Dover Charter School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the Academy of Dover Charter School complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Academy of Dover Charter School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy of

Board of Directors
Academy of Dover Charter School

Dover Charter School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy of Dover Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, Department of Finance and federal awarding agencies and pass-through entities; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29. Del. C., Section 10002(d), this report is a matter of public record and its distribution is not limited.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

**ACADEMY OF DOVER CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>FEDERAL GRANTOR/PROJECT TITLE</u>	<u>Source Codes</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>			
Passed through State of Delaware Department of Education			
Title I Grants to Local Educational Agencies			
ARRA Title I Grants to Local Educational Agencies		84.010	\$ 311,018
Title II Part A Improving Teacher Quality		84.389	25,236
Special Education Grants to States		84.367	20,767
Special Education Preschool Grants		84.027	60,184
ARRA Special Education Grants to States		84.173	1,664
ARRA Special Education Preschool Grants		84.391	7,503
ARRA State Fiscal Stabilization Funds - Education State Grants		84.392	2,889
ARRA State Fiscal Stabilization Funds - Race-to-the-Top		84.394	10,253
ARRA Education Jobs Fund		84.395	63,203
TOTAL U.S. DEPARTMENT OF EDUCATION		84.410	<u>29,174</u>
			<u>531,891</u>
<u>U.S. Department of Agriculture</u>			
Passed through State of Delaware Department of Education			
School Breakfast Program		10.553	53,811
National School Lunch Program		10.555	107,091
Fresh Fruit and Vegetables		10.582	13,162
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>174,064</u>
TOTAL FEDERAL AWARDS			<u>\$ 705,955</u>
TITLE I PART A CLUSTER			<u>\$ 336,254</u>
SPECIAL EDUCATION CLUSTER (I.D.E.A.)			<u>\$ 72,240</u>
CHILD NUTRITION CLUSTER			<u>\$ 160,902</u>

Source Codes:

I - Indirect

ACADEMY OF DOVER CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards received by the Academy of Dover Charter School and is presented on the accrual basis of accounting. The School's reporting entity is defined in Note A to the financial statements. All federal awards received from federal awarding agencies and pass-through entities are included on the schedule.

ACADEMY OF DOVER CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART A - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs [*unqualified, qualified, adverse or disclaimer*]:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

_____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553 and 10.555

Child Nutrition Cluster

84.010 and 84.389

Title I Part A Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes X No

ACADEMY OF DOVER CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

PART B - FINDINGS RELATED TO FINANCIAL STATEMENTS

STATUS OF PRIOR YEAR FINDINGS

IMPROPER ACCOUNT CODING

10-02 Finding

During our prior year audits, we noted that there were an excessive number of posting errors in the capital outlay, and repairs and maintenance accounts, indicating a lack of sufficient control procedures surrounding the journal entry function. The School should be following the FSF chart of accounts provided by the State of Delaware Office of Management and Budget. It is important to follow the proper account coding for the reporting of operating results in the financial statements.

Recommendation

We recommended that the employee preparing the payment voucher documents review the chart of accounts and obtain an understanding of the School's capitalization policy to ensure the amounts are coded to the proper account. In addition, as part of the monthly reconciliation of transaction activity, management should be aware of the accounts being used and compare them to the chart of accounts to ensure they are properly coded.

Status

During our current year audit, we noted that the coding of capital outlay activities and repairs and maintenance were much improved. This finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.

PART C - FINDINGS RELATED TO FEDERAL AWARDS

STATUS OF PRIOR YEAR FINDINGS

ELIGIBILITY - INCORRECT CLASSIFICATION

11-01 Child Nutrition Cluster - CFDA No. 10.553 & 10.555; Period July 1, 2010 to June 30, 2011

Condition

During our prior year compliance testing of Special Tests and Provisions - Verification of Free and Reduced Price Applications, we noted that the School did not use the appropriate sampling method to select applications for verification. An alternative focus sampling method was indicated in the Verification

ACADEMY OF DOVER CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Summary Report submitted to the Department of Education; however, the School did not meet the qualifications for using an alternative sample size established in the A-133 *Compliance Supplement*. Selections for verification were chosen randomly and were not based upon error-prone applications. The School did not follow up on verifications that did not receive responses.

Criteria

The School must select a sample of three percent of the applications approved for free and reduced price meals as of October 1 to verify the current free and reduced price eligibility of the households selected. The sample is to be selected from error-prone applications showing household income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals.

Effect

The School may have received reimbursements at the free or reduced rate for students that did not qualify for free and reduced meals.

Cause

Incorrect application of the procedures established in the A-133 *Compliance Supplement* for verification of Free and Reduced Price Applications under the National School Lunch Program.

Recommendation

We recommended that the School provide training to those responsible for conducting verification testing to ensure that those individuals are aware of, and apply, procedures necessary for the School to comply with all requirements under the Child Nutrition Programs. We recommended that those responsible for conducting such procedures provide summary reports to management and that management periodically evaluate the results of determinations and verification testing.

Status

During our current year audit, we noted that verification was properly executed for error-prone applications, and status changes were made for students, as necessary. This finding is no longer applicable.

ALLOWABLE COSTS/COST PRINCIPLES

11-02 Title I - Grants to Local Educational Agencies - CFDA No. 84.010; Period July 1, 2010 to June 30, 2011

Condition

Time and Effort tracking sheets were not on file for two employees whose salaries were charged 100 percent to the consolidated Title I grant.

ACADEMY OF DOVER CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Criteria

A Local Educational Agency that consolidates federal administrative funds, but does not consolidate federal funds with state and local funds in a consolidated pool, must maintain Time and Effort tracking sheets for employees who work solely on a single cost objective. The Time and Effort tracking sheet is a semi-annual certification signed by the employee and supervisor stating that he/she has been engaged only in activities that support the single cost objective.

Effect

Employee salaries were charged to the consolidated grant application without certification that employee time was devoted solely to Title I activities.

Cause

Management prepared Time and Effort tracking sheets at the beginning of the school year, but did not perform a periodic review to ensure that the required documentation was on file for all employees throughout the year.

Recommendation

We recommended that management periodically review personnel files to verify that the required Time and Effort tracking sheets are on file for all employees whose salaries are charged to the consolidated Title I grant.

Status

During our current year audit, we noted that time and effort was properly documented for all employees charged to the Title I grant. This finding is no longer applicable.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.