

## **Appendix XIII: Fiscal Year 2014 Audited Financial Statements**

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**

**ANNUAL FINANCIAL REPORT**

***Year Ended June 30, 2014***



*Certified Public Accountants and Business Consultants*

## **INTRODUCTORY SECTION**

## TABLE OF CONTENTS

	<u>Page No.</u>
<b>INTRODUCTORY SECTION</b>	
Table of Contents .....	1
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report .....	3
Management's Discussion and Analysis (Unaudited) .....	6
Basic Financial Statements	
<b><i>Government-Wide Financial Statements</i></b>	
Statement of Net Position .....	13
Statement of Activities .....	14
<b><i>Fund Financial Statements</i></b>	
<i>Governmental Fund</i>	
Balance Sheet .....	15
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balance .....	17
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities .....	18
<i>Fiduciary Fund</i>	
Statement of Fiduciary Net Position .....	19
<b><i>Notes to the Basic Financial Statements</i></b> .....	20

## TABLE OF CONTENTS

	<u>Page No.</u>
Required Supplementary Information	
Budgetary Comparison Schedule.....	29
Notes to the Required Supplementary Information .....	30
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	31
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	33
SUPPLEMENTARY INFORMATION - MAJOR FEDERAL AWARD PROGRAMS AUDIT	
Schedule of Expenditures of Federal Awards .....	35
Note to the Schedule of Expenditures of Federal Awards .....	36
Schedule of Findings and Questioned Costs .....	37
Schedule of Prior Audit Findings.....	38

## **FINANCIAL SECTION**

## ***Independent Auditors' Report***

To the Board of Directors  
East Side Charter School  
Wilmington, Delaware

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of East Side 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 East Side Charter School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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 adverse audit opinion on the reporting entity and unmodified audit opinions on the governmental activities, the major fund and the aggregate remaining fund information of the primary government.

***Basis for Adverse Opinion on the Reporting Entity***

The financial statements referred to above include only the primary government of East Side Charter School, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise East Side Charter School's legal entity. The financial statements do not include financial data for East Side Charter School's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of East Side Charter School's primary government.

***Adverse Opinion on the Reporting Entity***

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of East Side Charter School as of June 30, 2014, the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions on the Governmental Activities, the Major Fund and the Aggregate Remaining Fund Information***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information for the primary government of East Side Charter School as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6 through 12 and budgetary comparison information on pages 29 and 30 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.



To the Board of Directors  
East Side Charter School  
Wilmington, Delaware

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Side Charter School's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014, on our consideration of East Side 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 East Side Charter School's internal control over financial reporting and compliance.

*Maille LLP*

West Chester, Pennsylvania  
September 24, 2014

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2014*

East Side Charter School (the "School") is 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 17th year of operation, as contained in the report on its financial statements prepared by the School's outside auditors.

**FINANCIAL HIGHLIGHTS**

**Governmental Activities**

- The net position of the School at the close of the fiscal year is \$490,574, an increase of \$11,165 from the previous year.

**Fund Level**

As of the close of the current fiscal year, the School's Governmental Fund (the General Fund) reported an ending fund balance of \$331,651, an increase of \$88,919 from the previous year. \$24,611 of the ending fund balance is restricted by outside parties and \$45,470 is nonspendable.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This overview 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. The audit 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 13) presents information on all of the School's assets and liabilities, 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.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2014*

The Statement of Activities (page 14) 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.

**Fund Financial Statements**

The fund financial statements begin on page 15 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 to explain the differences between the Governmental Fund Balance Sheet and the Statement of Net Position (page 16) and between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities (page 18). 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 20 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 29 and 30.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
Year Ended June 30, 2014

**FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

**Net Position**

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

***East Side Charter School's Net Position  
June 30, 2014 and 2013***

	Governmental Activities	
	2014	2013
<b>ASSETS</b>		
Current and other assets	\$ 855,018	\$ 841,837
Capital assets	158,923	236,677
<b>TOTAL ASSETS</b>	<u>1,013,941</u>	<u>1,078,514</u>
<b>LIABILITIES</b>		
Other liabilities	<u>523,367</u>	<u>599,105</u>
<b>NET POSITION</b>		
Net investment in capital assets	158,923	236,677
Restricted for specific programs	24,611	41,811
Unrestricted	<u>307,040</u>	<u>200,921</u>
<b>TOTAL NET POSITION</b>	<u>\$ 490,574</u>	<u>\$ 479,409</u>

The net investment in capital assets component of the School's net position, \$158,923, is reflected as invested in capital assets (e.g., leasehold improvements, equipment and others), less any debt outstanding that was needed to acquire or construct the assets. There was no outstanding debt relating to the acquisition of capital assets at June 30, 2014 and 2013. The decrease in net investment in capital assets of \$77,754 is caused primarily by the difference between the acquisition of leasehold improvements and current year depreciation expense. The unrestricted net position of governmental activities increased due to the overall increase in net position.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
Year Ended June 30, 2014

	Governmental Activities	
	2014	2013
<b>REVENUES</b>		
Charges to school districts	\$ 1,620,051	\$ 1,695,284
State aid not restricted to specific purposes	3,083,206	3,150,797
Unrestricted investment earnings	5,195	5,773
Miscellaneous	392,616	365,848
Program revenues		
Operating grants and contributions	<u>815,493</u>	<u>607,583</u>
<b>TOTAL REVENUES</b>	<u>5,916,561</u>	<u>5,825,285</u>
<b>EXPENSES</b>		
Instructional services	4,500,080	4,298,465
Support services		
Operation and maintenance of facilities	645,369	640,493
Transportation	415,095	391,559
School lunch services	337,834	324,272
Summer Program	<u>7,018</u>	<u>-</u>
<b>TOTAL EXPENSES</b>	<u>5,905,396</u>	<u>5,654,789</u>
<b>CHANGE IN NET POSITION</b>	11,165	170,496
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>479,409</u>	<u>308,913</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 490,574</u>	<u>\$ 479,409</u>

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2014*

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

**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 fiscal year 2014, the fund balance was \$331,651, an increase of \$88,919 compared to fiscal year 2013.

The following schedule presents General Fund revenues and expenditures for 2014 compared to budget.

***East Side Charter School***  
***General Fund Activity vs. Budget***

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP Basis</u>	<u>Positive (Negative)</u>
<b>REVENUES</b>				
State support	\$ 3,016,571	\$ 3,016,571	\$ 3,083,206	\$ 66,635
Federal support	774,179	774,179	752,493	(21,686)
Charges to school districts	1,620,011	1,620,011	1,620,051	40
Earnings on cash and cash equivalents	5,900	5,900	5,195	(705)
Other local sources	<u>421,253</u>	<u>421,253</u>	<u>455,616</u>	<u>34,363</u>
<b>TOTAL REVENUES</b>	<u>5,837,914</u>	<u>5,837,914</u>	<u>5,916,561</u>	<u>78,647</u>
<b>EXPENDITURES</b>				
Current				
Salaries	2,907,544	2,907,544	2,881,989	25,555
Employment costs	1,278,040	1,278,040	1,245,538	32,502
Travel	2,500	2,500	3,093	(593)
Contracted services	553,217	553,217	561,573	(8,356)
Public utility services	176,000	176,000	175,868	132
Insurance	40,000	40,000	40,543	(543)
Transportation, buses	280,949	280,949	284,880	(3,931)
Repairs and maintenance	192,450	192,450	232,344	(39,894)
Supplies and materials	232,000	232,000	223,126	8,874
Computer/word processing/software	3,000	3,000	17,412	(14,412)
Special programs	148,359	148,359	143,876	4,483
Miscellaneous	10,000	10,000	8,912	1,088
Capital outlays	11,000	11,000	8,488	2,512
Contingency reserve	<u>90,215</u>	<u>90,215</u>	<u>-</u>	<u>90,215</u>
<b>TOTAL EXPENDITURES</b>	<u>5,925,274</u>	<u>5,925,274</u>	<u>5,827,642</u>	<u>97,632</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (87,360)</u>	<u>\$ (87,360)</u>	<u>\$ 88,919</u>	<u>\$ 176,279</u>

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**  
*Year Ended June 30, 2014*

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The School budget contained \$5,837,914 of revenues and \$5,925,274 of expenditures. The actual results were revenues of \$78,647 over budget and expenditures of \$97,632 below budget.

- State support, representing 53% of revenues, was greater than the budget by \$66,635. The State funding formulas are extremely complex and make it difficult to allow for 100% accuracy when calculating funding. We don't consider a 3% difference terribly significant considering all the variables in the calculation of this figure. We also received more funding due to corrections in inaccuracies in the system for years' experience and degree level of our faculty.
- Repairs and maintenance exceeded the budget by \$39,894. This was a result of two unexpected repair expenses during the year.
- A contingency reserve of \$90,215 was budgeted but none was spent during the fiscal year ended June 30, 2014. The School is required to budget this contingency, but does not charge any expenses against it.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
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 \$158,923, 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
Furniture and equipment	\$ 136,510	\$ 208,933
Leasehold improvements	<u>22,413</u>	<u>27,744</u>
	<u>\$ 158,923</u>	<u>\$ 236,677</u>

Major capital asset events during the 2014 fiscal year included the following:

- Leasehold improvements in the amount of \$8,488 were acquired.

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

**Long-Term Debt**

The School did not issue new debt during the fiscal year ended June 30, 2014.

**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 Dr. Lamont Browne, 3000 North Claymont Street, Wilmington, Delaware 19802-2807.



**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**STATEMENT OF NET POSITION**  
*June 30, 2014*

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 674,023
Prepaid expenses	45,470
Due from other governments	72,525
Due from component unit	63,000
Capital assets	
Depreciable assets	667,363
Accumulated depreciation	<u>(508,440)</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,013,941</u></b>
<b>LIABILITIES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 30,121
Accrued salaries and related costs	<u>493,246</u>
<b>TOTAL LIABILITIES</b>	<b><u>523,367</u></b>
<b>NET POSITION</b>	
Net investment in capital assets	158,923
Restricted for specific programs	24,611
Unrestricted	<u>307,040</u>
<b>TOTAL NET POSITON</b>	<b><u>490,574</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ <u>1,013,941</u></b>

*See accompanying notes to the basic financial statements.*

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**

**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	
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional	\$ 4,500,080	\$ -	\$ 486,919	\$ -	\$ (4,013,161)
Supporting services					
Transportation	415,095	-	-	-	(415,095)
Operation and maintenance of facilities	645,369	-	-	-	(645,369)
School food services	337,834	-	265,574	-	(72,260)
Summer Program	<u>7,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,018)</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>5,905,396</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>752,493</u></b>	<b>\$ <u>-</u></b>	<b><u>(5,152,903)</u></b>
<b>GENERAL REVENUES</b>					
Charges to school districts					1,620,051
State aid not restricted to specific purposes					3,083,206
Unrestricted investment earnings					5,195
Miscellaneous					<u>455,616</u>
<b>TOTAL GENERAL REVENUES</b>					<b><u>5,164,068</u></b>
<b>CHANGE IN NET POSITION</b>					<b>11,165</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>					<b><u>479,409</u></b>
<b>NET POSITION AT END OF YEAR</b>					<b>\$ <u>490,574</u></b>

*See accompanying notes to the basic financial statements.*

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
BALANCE SHEET  
GOVERNMENTAL FUND  
*June 30, 2014*

	<u>General Fund</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 674,023
Prepaid expenses	45,470
Due from other governments	72,525
Due from component unit	<u>63,000</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>855,018</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 30,121
Accrued salaries and related costs	<u>493,246</u>
<b>TOTAL LIABILITIES</b>	<b><u>523,367</u></b>
<b>FUND BALANCE</b>	
Nonspendable, prepaid items	45,470
Restricted	24,611
Unassigned	<u>261,570</u>
<b>TOTAL FUND BALANCE</b>	<b><u>331,651</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>855,018</u></b>

*See accompanying notes to the basic financial statements.*

**EAST SIDE CHARTER SCHOOL**

**(A Component Unit of the State of Delaware)**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES**

*June 30, 2014*

TOTAL GOVERNMENTAL FUND BALANCE	\$ <u>331,651</u>
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Fund. These assets consist of:	
Depreciable assets	667,363
Accumulated depreciation	<u>(508,440)</u>
	<u>158,923</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u><u>490,574</u></u>

*See accompanying notes to the basic financial statements.*

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUND**  
*Year Ended June 30, 2014*

	<u>General Fund</u>
<b>REVENUES</b>	
State support	\$ 3,083,206
Federal support	752,493
Charges to school districts	1,620,051
Earnings on cash and cash equivalents	5,195
Other local sources	<u>455,616</u>
<b>TOTAL REVENUES</b>	<u>5,916,561</u>
<b>EXPENDITURES</b>	
Current	
Instructional services	4,420,856
Supporting services	
Transportation	415,095
Operation and maintenance of facilities	645,369
School food services	337,834
Capital outlays	<u>8,488</u>
<b>TOTAL EXPENDITURES</b>	<u>5,827,642</u>
<b>NET CHANGE IN FUND BALANCE</b>	88,919
<b>FUND BALANCE AT BEGINNING OF YEAR</b>	<u>242,732</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 331,651</u></u>

*See accompanying notes to the basic financial statements.*

**EAST SIDE CHARTER SCHOOL****(A Component Unit of the State of Delaware)****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	\$	88,919
--	----	--------

Capital outlays are reported in the Governmental Fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the current period.

Capital outlays	8,488
Depreciation	<u>(86,242)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>11,165</u>
---	----	---------------

*See accompanying notes to the basic financial statements.*

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUND**  
*June 30, 2014*

	Agency Fund
	<u>Student Activities Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ <u>274</u>
<b>LIABILITIES</b>	
Other current liabilities	\$ <u>274</u>

*See accompanying notes to the basic financial statements.*

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2014*

**NOTE A      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of the Charter School**

East Side Charter School (the "School") was formed in 1997 as a nonprofit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The School was established to provide a strong learning atmosphere and educational program to "at-risk" students.

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 and do not receive state or local school district funding for capital facilities. To encourage innovation, charter schools operate free from some state laws and regulations.

The basic 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 is considered 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 GASB established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the School's financial reporting entity are financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financing relationships. Based upon the above criteria, the School has one component unit (East Side Community Learning Center Foundation). The component unit has not been reflected in these financial statements.

**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. For the most part, the effect of interfund activity has been removed from these statements.



**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2014*

The government-wide financial statements report net position in one of three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowing attributable to acquiring, constructing, or improving those assets. Net investment in capital assets is reported as restricted for specific programs when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net position arising from special revenue and capital funds. Unrestricted net position consists of net position that does not meet the definition of "net investment in capital assets" or "restricted for specific programs."

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. Likewise, general revenues include charges to school districts.

Separate financial statements are provided for the Governmental Fund and Fiduciary Fund, even though the latter is excluded from the government-wide financial statements.

**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.

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.

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 year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2014*

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.

Additionally, the School reports the following fund type:

- The Agency Fund (Fiduciary Fund) accounts for assets held on behalf of student and parent groups.

Amounts reported as program revenues include: (1) charges to students for special fees, materials, supplies, or services provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

**Cash and Cash Equivalents**

Cash and cash equivalents of the School are controlled by the State Treasurer's Office in Dover, Delaware, and include cash on hand and demand deposits.

**Accounts Receivable**

Bad debts are provided for on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. At June 30, 2014, there was no allowance for doubtful accounts.

**Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "interfund receivable/payable" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2014, the School had no such activity. Advances between funds, when present, are offset by an account in the applicable Governmental Fund and are not available for appropriation and available financial resources.

**Capital Assets**

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. 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.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2014*

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

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

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

	<u>Years</u>
Furniture and equipment	5-10
Transportation equipment	5-10
Leasehold improvements	5-15

**Vacation and Sick Leave**

Full-time 12-month employees are permitted to take up to ten vacation days and ten non-vacation days (combined personal, sick, etc.) each school year, and 11-month employees are permitted to take up to ten days (combined personal and sick) each school year. Ten-month employees are permitted to take up to seven days (combined personal and sick) each school year. Unused absences may be rolled over to the following year; however, such days can only be used for FMLA-qualified leave. No accumulated time will be paid out upon termination or separation.

**Budgets**

Budgets are presented on the modified accrual basis of accounting, and annual appropriations generally lapse at year-end.

**Encumbrances**

Encumbrance accounting is employed in the Governmental Fund. Encumbrances (e.g., purchase orders and contracts) outstanding at year-end are reported as committed or assigned fund balance, as appropriate, and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There were no encumbrances outstanding as of June 30, 2014.

**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.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*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. The School had \$45,470 of prepaid expenses classified as nonspendable resources as of June 30, 2014.
- ***Restricted:*** This classification includes amounts for which constraints have been placed on the use of the resources either (1) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The School had a restricted fund balance of \$24,611 as of June 30, 2014.
- ***Committed:*** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the School's highest level of decision-making authority which is the Board of Directors. These amounts cannot be used for any other purpose unless the School removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed (formal action by the Board of Directors). 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 Board of Directors or through the Board of Directors 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 assigned fund balance amounts.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2014*

**Income Tax**

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The School believes it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. The School's federal Return of Organization Exempt From Income Tax (Form 990) for tax years 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.

**NOTE B CASH AND CASH EQUIVALENTS**

The School's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

At June 30, 2014, the School had cash and equivalents of \$674,297. Substantially all cash and cash equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and any investment decisions are made by the State Treasurer's Office. The credit risk for the deposits held by the State of Delaware investment pool, an internal investment pool, cannot be categorized for these deposits. Credit risk for such deposits 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. 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.

At June 30, 2014, certain of the School's cash and cash equivalents are restricted by outside parties for restricted purposes. Total cash and cash equivalents are comprised of the following:

Unrestricted cash and cash equivalents	\$ 649,412
Restricted cash and cash equivalents	<u>24,611</u>
REPORTED ON STATEMENT	
OF NET POSITION	674,023
Cash held in Agency Fund	<u>274</u>
	<u><u>\$ 674,297</u></u>

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2014

**NOTE C CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, is as follows:

	<u>Beginning Balance</u>
<b>CAPITAL ASSETS BEING DEPRECIATED</b>	
Furniture and equipment	\$ 402,067
Transportation equipment	56,840
Leasehold improvements	<u>199,968</u>
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<u>658,875</u>
<b>Accumulated depreciation</b>	
Furniture and equipment	(193,134)
Transportation equipment	(56,840)
Leasehold improvements	<u>(172,224)</u>
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<u>(422,198)</u>
 <b>CAPITAL ASSETS, net</b>	 <b>\$ <u>236,677</u></b>

Depreciation expense of \$86,242 was charged to operation and maintenance of facilities on the statement of activities.

**NOTE D 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 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. The employees contribute 3% of salary in excess of \$6,000. For 2014, total pension cost was \$572,090.

Certain significant plan provisions are as follows:

- **Early Retirement**
  - 15 years service - age 55 (reduced by 0.2% for each month under age 60)
  - 25 years service - any age (reduced by 0.2% for each month short of 30 years)

<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
\$ -	\$ -	\$ 402,067
-	-	56,840
8,488	-	208,456
<u>8,488</u>	<u>-</u>	<u>667,363</u>
(72,423)	-	(265,557)
-	-	(56,840)
<u>(13,819)</u>	<u>-</u>	<u>(186,043)</u>
<u>(86,242)</u>	<u>-</u>	<u>(508,440)</u>
\$ <u><u>(77,754)</u></u>	\$ <u><u>-</u></u>	\$ <u><u>158,923</u></u>

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2014*

- **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**
  - Employees hired prior to January 1, 2012, vest pension rights after five years of service. Employees hired on or after January 1, 2012, 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, calling 1-800-722-7300, or visiting the website at [www.delawarepensions.com/information/financials.shtml](http://www.delawarepensions.com/information/financials.shtml).

**NOTE E LEASING ARRANGEMENT AS LESSEE**

The School leases its premises for an annual rental of \$1 from a related nonprofit organization. The School also leases certain copier equipment under an operating leasing arrangement expiring in July 31, 2017. At June 30, 2014, the minimum future rental payments under the noncancelable leasing arrangement having remaining terms in excess of one year are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 22,953
2016	22,953
2017	<u>13,389</u>
	<u>\$ 59,295</u>

At June 30, 2014, total rental expense was \$58,501.



**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
*June 30, 2014*

**NOTE F 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 year presented.

**NOTE G 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 by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the General Fund. The School's administration believes such disallowance, if any, would be immaterial.

**NOTE H EXCESS EXPENDITURES OVER APPROPRIATIONS**

The following General Fund functions incurred expenditures in excess of budget in the following amounts for the year ended June 30, 2014:

Travel	\$	593
Contracted services		8,356
Insurance		543
Transportation, buses		3,931
Repairs and maintenance		39,894
Computer/word processing/software		14,412

**NOTE I ECONOMIC DEPENDENCY**

School revenues that constitute in excess of 10% of total revenues are comprised of the following:

State support .....	53%
Federal support .....	13%
Charges to school districts .....	28%

## **REQUIRED SUPPLEMENTARY INFORMATION**

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
*Year Ended June 30, 2014*

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	GAAP Basis	Final Budget Positive (Negative)
<b>REVENUES</b>				
State support	\$ 3,016,571	\$ 3,016,571	\$ 3,083,206	\$ 66,635
Federal support	774,179	774,179	752,493	(21,686)
Charges to school districts	1,620,011	1,620,011	1,620,051	40
Earnings on cash and cash equivalents	5,900	5,900	5,195	(705)
Charges for services			-	-
Other local sources	<u>421,253</u>	<u>421,253</u>	<u>455,616</u>	<u>34,363</u>
<b>TOTAL REVENUES</b>	<u>5,837,914</u>	<u>5,837,914</u>	<u>5,916,561</u>	<u>78,647</u>
<b>EXPENDITURES</b>				
Current				
Salaries	2,907,544	2,907,544	2,881,989	25,555
Employment costs	1,278,040	1,278,040	1,245,538	32,502
Travel	2,500	2,500	3,093	(593)
Contracted services	553,217	553,217	561,573	(8,356)
Public utility services	176,000	176,000	175,868	132
Insurance	40,000	40,000	40,543	(543)
Transportation, buses	280,949	280,949	284,880	(3,931)
Repairs and maintenance	192,450	192,450	232,344	(39,894)
Supplies and materials	232,000	232,000	223,126	8,874
Computer/word processing/ software	3,000	3,000	17,412	(14,412)
Special programs	148,359	148,359	143,876	4,483
Miscellaneous	10,000	10,000	8,912	1,088
Capital outlays	11,000	11,000	8,488	2,512
Contingency reserve	<u>90,215</u>	<u>90,215</u>	<u>-</u>	<u>90,215</u>
<b>TOTAL EXPENDITURES</b>	<u>5,925,274</u>	<u>5,925,274</u>	<u>5,827,642</u>	<u>97,632</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (87,360)</u>	<u>\$ (87,360)</u>	<u>\$ 88,919</u>	<u>\$ 176,279</u>

*See accompanying notes to the required supplementary information.*

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
*Year Ended June 30, 2014*

**NOTE A      BASIS OF ACCOUNTING**

The accompanying budgetary comparison schedule 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.

**NOTE B      EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

These excess expenditures were funded by various functions that were under 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  
East Side 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, the major fund and the aggregate remaining fund information of East Side Charter School as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise East Side Charter School's basic financial statements, and have issued our report thereon dated September 24, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered East Side 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 East Side Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of East Side Charter School's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors  
East Side Charter School  
Wilmington, Delaware

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether East Side 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*.

### ***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.

*Maille LLP*

West Chester, Pennsylvania  
September 24, 2014



***Independent Auditors' Report on Compliance for Each Major Federal Program and  
Report on Internal Control Over Compliance in Accordance With OMB Circular A-133***

To the Board of Directors  
East Side Charter School  
Wilmington, Delaware

***Report on Compliance for Each Major Federal Program***

We have audited East Side Charter School's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of East Side Charter School's major federal programs for the year ended June 30, 2014. East Side Charter School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of East Side Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 East Side Charter 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 on compliance for each major federal program. However, our audit does not provide a legal determination of East Side Charter School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the East Side Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

To the Board of Directors  
East Side Charter School  
Wilmington, Delaware

### ***Report on Internal Control Over Compliance***

Management of East Side Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered East Side Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 East Side 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Purpose of this Report***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Maille LLP*

West Chester, Pennsylvania  
September 24, 2014



**SUPPLEMENTARY INFORMATION - MAJOR FEDERAL  
AWARD PROGRAMS AUDIT**

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*Year Ended June 30, 2014*

<u>Federal Grantor/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<b>Passed through State of Delaware Department of Education</b>			
Fresh Fruit and Vegetable Program	10.582	N/A	\$ 19,873
Child and Adult Care Food Program	10.558	N/A	245,701
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>265,574</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<b>Passed through State of Delaware Department of Education</b>			
Title I Grants to Local Educational Agencies	84.010	N/A	322,187
Special Education - Grants to States	84.027	N/A	55,863
Special Education - Preschool Grants	84.173	N/A	8,138
ARRA - Race to the Top	84.395	N/A	100,731
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>486,919</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 752,493</u>

*See accompanying note to the schedule of expenditures of federal awards.*

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**NOTE TO THE SCHEDULE OF EXPENDITURES OF**  
**FEDERAL AWARDS**  
*Year Ended June 30, 2014*

**NOTE A      BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting, which is described in Note A of the School's basic financial statements.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*Year Ended June 30, 2014*

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses a modified opinion on the financial statements of East Side Charter School.
2. There are no material weaknesses relating to the audit of the financial statements reported in the 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 *Governmental Auditing Standards*.
3. No instances of noncompliance material to the financial statements of East Side Charter School were disclosed during the audit.
4. The auditors' report on compliance for the major federal award programs of the East Side Charter School expresses an unmodified opinion on all major federal programs.
5. There are no audit findings that are required to be disclosed under OMB Circular A-133, Section 510(a).
6. The programs tested as major programs included:

<u>Program</u>	<u>CFDA</u>
Title I Grants to Local Educational Agencies Program	84.010
Race to the Top - ARRA	84.395

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. East Side Charter School does not qualify as a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

**EAST SIDE CHARTER SCHOOL**  
**(A Component Unit of the State of Delaware)**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
*Year Ended June 30, 2014*

**12-01 Lack of Support for Cash Receipts**

**Description of Finding:** Documentation to support miscellaneous cash receipts could not be located.

**Current Status:** This finding has been corrected as all documentation to support miscellaneous cash receipts was maintained and provided to the auditors to review.

**13-01 Title I Grants to Local Educational Agencies - Allowable Costs and Cost**

**Description of Finding:** Our review of payroll expenses revealed that the School charged payroll expenses to the program based on estimates determined before the services were performed. In addition, periodic payroll certifications were not on file to support wages charged 100% to federal programs.

**Current Status:** This finding has been corrected as all documentation to support 100% certification was maintained and provided to the auditors to review.