

**DELAWARE ACADEMY OF PUBLIC
SAFETY AND SECURITY
(A Component Unit of the State of Delaware)**

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2013

INTRODUCTORY SECTION

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Delaware Academy of Public Safety and Security
Newark, 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 the Delaware Academy of Public Safety and Security (a component unit of the State of Delaware) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Delaware Academy of Public Safety and Security's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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 of the Delaware Academy of Public Safety and Security as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Emphasis of Matter

As discussed in Note A to the financial statements, for the year ended June 30, 2013, the Delaware Academy of Public Safety and Security adopted new accounting guidance, implementing Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 10 and budgetary comparison information on pages 28 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2013, on our consideration of the Delaware Academy of Public Safety and Security's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Delaware Academy of Public Safety and Security's internal control over financial reporting and compliance.

Maille LLP

West Chester, Pennsylvania
September 19, 2013

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

The Delaware Academy of Public Safety and Security (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, 2013, its 2nd 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 \$(117,930).

Fund Level

As of the close of the current fiscal year, the School's Governmental Fund (the General Fund) reported an ending fund balance deficit of \$(8,990). In the event that the School should cease operations, it would have to take steps to offset the negative balance in order to meet all of its financial obligations.

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 11) 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.

The Statement of Activities (page 12) 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.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

Fund Financial Statements

The fund financial statements begin on page 13 and provide detailed information about the General Fund. A "fund" is a fiscal and accounting entity with a self-balancing set of accounts that the School uses to keep track of specific sources of funding and spending for a particular purpose. The General Fund falls into the governmental category.

- **Governmental Funds** - The School's basic services are reported in a Governmental Fund, which focuses on how cash flows into and out of the fund and the balances left at year-end that are available for future spending. The Governmental Fund financial statements provide a detailed, short-term view of the School's operations and the services it provides. Governmental Fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the long-term focus of the government-wide statements, reconciliations are provided to explain the differences between the Governmental Fund Balance Sheet and the Statement of Net Position (page 14) and between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities (page 16). These funds are reported using the modified accrual basis of accounting, which primarily measures cash and other financial assets available to satisfy current liabilities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 18 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 28 and 29.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School as a whole and about its activities to help answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by private sector corporations. All of the current year revenue and expenses are taken into consideration regardless of when cash is received or paid.

The change in net position provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment stability and facility conditions to arrive at a conclusion regarding the overall health of the School.

Condensed Statements of Net Position
June 30, 2013 and 2012

	Governmental Activities	
	2013	2012
ASSETS		
Current and other assets	\$ 278,157	\$ 185,927
Capital assets	153,033	75,389
TOTAL ASSETS	431,190	261,316
LIABILITIES		
Current liabilities	328,454	261,019
Noncurrent liabilities	220,666	25,928
TOTAL LIABILITIES	549,120	286,947
NET POSITION		
Net investment in capital assets	153,033	75,389
Unrestricted	(270,963)	(101,020)
TOTAL NET POSITION	\$ (117,930)	\$ (25,631)

The net investment in capital assets component of the School's net position, \$153,033, is reflected as invested in capital assets (e.g., furniture, 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, 2013. The increase in net investment in capital assets of \$77,644 is caused primarily by the difference between the purchase of furniture and equipment and current year depreciation expense. The unrestricted net position of governmental activities (a deficit) decreased due to the overall decrease in net position.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

Condensed Statements of Changes in Net Position
Years Ended June 30, 2013 and 2012

	Governmental Activities	
	2013	2012
REVENUES		
Charges to school districts	\$ 641,532	\$ 325,413
State aid not restricted to specific purposes	1,369,721	805,882
Donations	131,612	75,013
Operating grants and contributions	73,841	341,396
TOTAL REVENUES	2,216,706	1,547,704
EXPENSES		
Instructional services	1,815,487	1,097,688
Support services		
Operation and maintenance of facilities	281,631	231,742
Transportation	189,712	99,346
School food services	1,885	8,176
Interest expense	20,290	7,313
TOTAL EXPENSES	2,309,005	1,444,265
CHANGE IN NET POSITION	(92,299)	103,439
NET POSITION AT BEGINNING OF YEAR	(25,631)	(129,070)
NET POSITION AT END OF YEAR	\$ (117,930)	\$ (25,631)

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 fund. At the end of fiscal year 2013, the unassigned fund deficit was \$(8,990), an increase of \$45,435 compared to fiscal year 2012.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

The following schedule presents General Fund revenues and expenditures for 2013 compared to budget.

	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts Cash Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES			
State support	\$ 1,350,374	\$ 1,369,721	\$ 19,347
Federal support	77,512	40,988	(36,524)
Charges to school districts	641,532	641,532	-
Other local sources	<u>326,120</u>	<u>201,538</u>	<u>(124,582)</u>
TOTAL REVENUES	<u>2,395,538</u>	<u>2,253,779</u>	<u>(141,759)</u>
EXPENDITURES			
Current			
Salaries	1,036,993	978,648	58,345
Employment costs	455,475	423,684	31,791
Contracted services	623,945	641,039	(17,094)
Supplies and materials	154,000	122,349	31,651
Capital outlays	20,000	9,867	10,133
Contingency reserve	<u>39,742</u>	<u>-</u>	<u>39,742</u>
TOTAL EXPENDITURES	<u>2,330,155</u>	<u>2,175,587</u>	<u>154,568</u>
NET CHANGE IN FUND BALANCE	<u>\$ 65,383</u>	<u>\$ 78,192</u>	<u>\$ 12,809</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The School adopted the fiscal year 2013 budget in 2012 and did not amend it during the year. The final budget contained \$2,395,538 of revenues and \$2,330,155 of expenditures. The actual results were revenues of \$141,759 below budget and expenditures of \$154,568 below budget.

- Federal support, representing 3% of revenues, was less than the budget by \$36,524.
- Charges to school districts, representing 27% of revenues, were on par with budget
- Salaries and employment costs, representing 64% of expenditures, were less than the budget by \$90,136 due to lower average salary rate.
- Contracted services exceeded the budget by \$17,094 due to relocation planning and legal expenses.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
Year Ended June 30, 2013

- Supplies and materials was less than the budget by \$31,651 due to reduced enrollment.
- A contingency reserve of \$39,742 was budgeted but none was spent during the fiscal year ended June 30, 2013. The School is required to budget this contingency, but does not charge any expenses against it.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the School had invested \$153,033, net of accumulated depreciation, in its capital assets.

	<u>Governmental Activities</u>
Furniture and equipment	\$ 51,922
Computer equipment	129,376
Accumulated depreciation	<u>(28,265)</u>
	<u><u>\$ 153,033</u></u>

Major capital asset events during the 2013 fiscal year included the following:

- Furniture, equipment and computers in the amount of \$92,682 was acquired.

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

Long-Term Debt

In November 2010, the School entered into an agreement to borrow \$62,000, at 6.00% interest annually. Payments are due on an annual basis. One principal payment is due in fiscal year 2012; the entire balance is due to mature in fiscal year 2013.

In November 2012, the School borrowed \$200,000 at 5.00% interest annually. The entire balance is due June 2014.

Compensated absences in the amount of \$41,307 were presented in the statement of net position.

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 Charles Hughes, Head of School, 179 Stanton Christiana Rd, Newark, DE 19702.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 248,117
Prepaid rent	<u>20,040</u>
Capital assets	
Depreciable assets	181,298
Accumulated depreciation	<u>(28,265)</u>
TOTAL CAPITAL ASSETS	<u>153,033</u>
Security deposit	<u>10,000</u>
TOTAL ASSETS	<u><u>\$ 431,190</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Accounts payable	\$ 21,707
Accrued salaries and related costs	258,337
Accrued expenses	3,432
Deferred revenue	3,671
Compensated absences	41,307
Long-term debt, portion due within one year	<u>220,666</u>
TOTAL LIABILITIES	<u>549,120</u>
NET POSITION	
Net investment in capital assets	153,033
Unrestricted	<u>(270,963)</u>
TOTAL NET POSITION	<u>(117,930)</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 431,190</u></u>

See accompanying notes to the basic financial statements.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
<u>Governmental Activities</u>					
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ 1,815,487	\$ -	\$ 73,841	\$ -	\$ (1,741,646)
Supporting services					
Transportation	189,712	-	-	-	(189,712)
Operation and maintenance of facilities	281,631	-	-	-	(281,631)
School food services	1,885	-	-	-	(1,885)
Interest expense	20,290	-	-	-	(20,290)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 2,309,005	\$ -	\$ 73,841	\$ -	(2,235,164)
GENERAL REVENUES					
Charges to school districts					641,532
State aid not restricted to specific purposes					1,369,721
Donations					131,612
TOTAL GENERAL REVENUES					2,142,865
CHANGE IN NET POSITION					(92,299)
NET POSITION AT BEGINNING OF YEAR					(25,631)
NET POSITION AT END OF YEAR					\$ (117,930)

See accompanying notes to the basic financial statements.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2013

	<u>General Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 248,117
Prepaid rent	20,040
Security deposit	<u>10,000</u>
TOTAL ASSETS	<u>\$ 278,157</u>
LIABILITIES AND FUND DEFICIT	
LIABILITIES	
Accounts payable	\$ 21,707
Accrued salaries and related costs	258,337
Accrued expenses	3,432
Unearned revenue	<u>3,671</u>
TOTAL LIABILITIES	<u>287,147</u>
FUND DEFICIT	
Nonspendable	30,040
Unassigned	<u>(39,030)</u>
TOTAL FUND DEFICIT	<u>(8,990)</u>
TOTAL LIABILITIES AND FUND DEFICIT	<u>\$ 278,157</u>

See accompanying notes to the basic financial statements.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY

(A Component Unit of the State of Delaware)

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE

TO NET POSITION OF GOVERNMENTAL ACTIVITIES

June 30, 2013

TOTAL GOVERNMENTAL FUND DEFICIT \$ (8,990)

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	181,298
Accumulated depreciation	<u>(28,265)</u>
	<u>153,033</u>

Some liabilities are not due and payable in the current period and therefore are not reported in the Governmental Fund. Those liabilities consist of:

Current portion of debt payable	(220,666)
Compensated absences	<u>(41,307)</u>
	<u>(261,973)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (117,930)

See accompanying notes to the basic financial statements.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY**(A Component Unit of the State of Delaware)**

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE

GOVERNMENTAL FUND

Year Ended June 30, 2013

	<u>General Fund</u>
REVENUES	
State support	\$ 1,369,721
Federal support	73,841
Charges to school districts	641,532
Donations	<u>48,797</u>
TOTAL REVENUES	<u>2,133,891</u>
EXPENDITURES	
Current	
Instructional services	1,764,738
Supporting services	
Transportation	189,712
Operation and maintenance of facilities	281,297
School food services	1,885
Debt service	40,957
Capital outlays	<u>9,867</u>
TOTAL EXPENDITURES	<u>2,288,456</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(154,565)
OTHER FINANCING SOURCES	
Proceeds of debt issuance	<u>200,000</u>
NET CHANGE IN FUND BALANCE	45,435
FUND DEFICIT AT BEGINNING OF YEAR	<u>(54,425)</u>
FUND DEFICIT AT END OF YEAR	<u>\$ (8,990)</u>

See accompanying notes to the basic financial statements.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(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, 2013

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND	\$ 45,435
<p>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.</p>	
Capital outlays	9,867
Depreciation	(15,038)
<p>Revenues in the statement of activities that are not available to provide current financial resources are not reported as inflows in the funds. Donations of long-lived assets are recorded as revenue in the statement of activities but do not provide current financial resources.</p>	
	82,815
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Fund.</p>	
Proceeds from debt	(200,000)
Repayment of debt	20,667
Compensated absences	(36,045)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u>(92,299)</u>

See accompanying notes to the basic financial statements.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
Year Ended June 30, 2013

	Agency Fund
	Student Activities Fund
ASSETS	
Cash and cash equivalents	\$ <u>20,675</u>
LIABILITIES	
Other current liabilities	\$ <u>20,675</u>

See accompanying notes to the basic financial statements.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

Delaware Academy of Public Safety and Security (the "School") was formed in 2010 as a nonprofit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The School was established to improve graduation rates among at-risk students through a career academy model that is fully integrated with a robust mentoring component.

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 the primary government and 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 no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

The government-wide financial statements report net position in three separate 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 position 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.

Measurement Focus, Basis of Accounting and Financial Statement Preparation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current 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.

The School reports the General Fund (a Governmental Fund type), which is the School's operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The School reports the Agency Fund (a Fiduciary Fund type), which is the School's activities fund. It accounts for assets held on behalf of student and parent groups.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY

(A Component Unit of the State of Delaware)

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2013

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.

Capital Assets

The School defines capital assets as assets with an initial, individual cost of more than \$1,500 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.

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

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	10
Computer equipment	5

Compensated Absences

Vacation and sick pay plus related payroll taxes are accrued when earned in the government-wide financial statements. The liability for these amounts is reported in the Governmental Fund as accrued as a result of employees' eligibility for retirement. As of June 30, 2013, no employees were eligible for retirement.

Vacation

Twelve-month employees can accumulate up to one day per month of vacation days earned that year. Any unused vacation days shall be accumulated to the employee's credit without limit. Employees are paid for accumulated unused vacation upon retirement at the current rate of pay.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY

(A Component Unit of the State of Delaware)

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Sick Leave

Sick leave allowances are as follows: 10 days for 10-month employees, 11 days for 11-month employees and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is paid for all accumulated sick days.

Fund Balance

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

- ***Nonspendable*** - This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) are legally or contractually required to be maintained intact. The School has classified prepaid items as being nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- ***Restricted*** - This classification includes amounts for which constraints have been placed on the use of the resources either (1) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation.
- ***Committed*** - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The Board of Directors is the highest level of decision-making authority for the School. Commitments cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2013.
- ***Assigned*** - This classification includes amounts that are constrained by the School's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or through the School Board delegating this responsibility to the School management through the budgetary process. The School did not have any assigned fund balance as of June 30, 2013.

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- ***Unassigned*** - This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other Governmental Fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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

Income Tax

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the School's financial statements. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The School believes it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements. The School's federal Return of Organization Exempt From Income Tax (Form 990) for tax years 2011 and 2010 are subject to examination by the IRS, generally for three years after the tax return was filed; however, there are currently no audits in progress for any tax periods.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the School that is applicable to a future reporting period and an acquisition of net position by the School that is applicable to a future reporting period, respectively.

Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends the net position reporting requirements in Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position rather than net assets.

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The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. The School has implemented the effects of this statement for the reporting period ended June 30, 2013.

In April 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

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, 2013, the School had cash and cash equivalents of \$248,117. 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 deposits 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 deposits. Credit risk for such deposits depends on the financial stability of the State.

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June 30, 2013

NOTE C CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, is as follows:

	Beginning Balance July 1, 2012	Increases	Decreases	Ending Balance June 30, 2013
CAPITAL ASSETS BEING DEPRECIATED				
Furniture and equipment	\$ 42,055	\$ 9,867	\$ -	\$ 51,922
Computers	46,561	82,815	-	129,376
TOTAL CAPITAL ASSETS BEING DEPRECIATED	88,616	92,682	-	181,298
Accumulated depreciation				
Furniture and equipment	(4,055)	(5,161)	-	(9,216)
Computers	(9,172)	(9,877)	-	(19,049)
TOTAL ACCUMULATED DEPRECIATION	(13,227)	(15,038)	-	(28,265)
CAPITAL ASSETS BEING DEPRECIATED, net	\$ 75,389	\$ 77,644	\$ -	\$ 153,033

Depreciation expense was \$15,038 for the year ended June 30, 2013, and is allocated \$334 to operations and \$14,704 to instructional services in the accompanying statement of activities.

NOTE D LONG-TERM DEBT

On November 22, 2010, the School agreed to an unsecured promissory note in the amount of \$62,000 at an interest rate of 6.00%. The loan matures on January 1, 2014.

On November 10, 2012, the School agreed to a grid note to a related party (see Note J) in the amount of \$200,000 at an interest rate of 5.00%. The loan matures on June 30, 2014.

An analysis of debt service requirements to maturity on this obligation is as follows:

Year Ending June 30,	Principal	Interest
2014	\$ 220,666	\$ 11,240

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

Changes in long-term debt are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Loans	\$ 41,333	\$ 200,000	\$ (20,667)	\$ 220,666	\$ 220,666
Compensated absences	5,262	41,307	(5,262)	41,307	-
	<u>\$ 46,595</u>	<u>\$ 241,307</u>	<u>\$ (25,929)</u>	<u>\$ 261,973</u>	<u>\$ 220,666</u>

NOTE E PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. The State contributed 20.28% of covered payroll or \$204,544 to the pension program for the year ended June 30, 2013.

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
- b. 30 years service - any age
- c. 5 years service - age 62

Disability Retirement

Five years service and proof of disability

Vested Pension

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

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System Comprehensive Annual Financial Report. This report may be obtained by writing DPERs at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904, or calling 1-800-722-7300.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE F LEASING ARRANGEMENT AS LESSEE

The School leases its facilities under a lease beginning September 1, 2010, for a five-year term with an option to renew for three, five-year terms. The School also leases a copier under a lease beginning August 2011, for a three-year term.

Future minimum rental payments under these leases are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2014	\$ 194,404
2015	423,159
2016	422,792
2017	375,352
2018	<u>412,887</u>
	<u>\$ 1,828,594</u>

At June 30, 2013, total rental expense was \$233,068.

NOTE G RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in the year presented.

NOTE H 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.

Compensated Absences

The School provides paid time off to its employees. As of June 30, 2013, the School had a liability of \$41,307 for compensated absences. The School considers all compensated absences to be long-term in nature.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

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 I ECONOMIC DEPENDENCY

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

State support	64%
Charges to school districts	30%

NOTE J RELATED PARTY TRANSACTIONS

In November 2012, the School entered into a grid note payable to a related party. The loan is payable in full on June 30, 2014, plus accrued interest at a rate of 5.00%. At June 30, 2013, the outstanding balance due was \$200,000. Accrued interest at June 30, 2013, was \$2,813.

REQUIRED SUPPLEMENTARY INFORMATION

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY**(A Component Unit of the State of Delaware)****BUDGETARY COMPARISON SCHEDULE****GENERAL FUND***Year Ended June 30, 2013*

	<u>Budgeted Amounts Original and Final</u>	<u>Actual Amounts Cash Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES			
State support	\$ 1,350,374	\$ 1,369,721	\$ 19,347
Federal support	77,512	40,988	(36,524)
Charges to school districts	641,532	641,532	-
Other local sources	<u>326,120</u>	<u>201,538</u>	<u>(124,582)</u>
TOTAL REVENUES	<u>2,395,538</u>	<u>2,253,779</u>	<u>(141,759)</u>
EXPENDITURES			
Current			
Salaries	1,036,993	978,648	58,345
Employment costs	455,475	423,684	31,791
Contracted services	623,945	641,039	(17,094)
Supplies and materials	154,000	122,349	31,651
Capital outlays	20,000	9,867	10,133
Contingency reserve	<u>39,742</u>	<u>-</u>	<u>39,742</u>
TOTAL EXPENDITURES	<u>2,330,155</u>	<u>2,175,587</u>	<u>154,568</u>
NET CHANGE IN FUND BALANCE	\$ <u>65,383</u>	\$ <u>78,192</u>	\$ <u>12,809</u>

See accompanying notes to the required supplementary information.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2013

NOTE A BASIS OF ACCOUNTING

The School's budget is prepared on the cash basis of accounting. The amount reported as "net change in fund balance" on the budgetary basis derives from the cash basis of accounting. Revenues are reported when received and expenditures are reported when paid. This amount differs from the "net change in fund balance" reported on the statement of revenues, expenditures and changes in fund balance, Governmental Fund on page 15.

That statement is prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The following reconciles the net change in fund balance per the budgetary basis to the net change in fund balance per the modified accrual basis.

CHANGE IN FUND BALANCE, BUDGETARY BASIS	\$ 78,192
Net increase in prepaids	4,040
Net increase in security deposit	10,000
Net decrease in accounts payable	6,802
Net increase in accrued salaries and related costs	(139,570)
Net decrease in accrued liabilities	53,120
Net decrease in deferred revenue	<u>32,851</u>
 CHANGE IN FUND BALANCE, MODIFIED ACCRUAL BASIS	 \$ <u><u>45,435</u></u>

NOTE B EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess expenditures were funded by various revenues that were over budget in the General Fund and fund balance carried over from the prior year.

***Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards***

To the Board of Directors
Delaware Academy of Public Safety and Security
Newark, 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 the Delaware Academy of Public Safety and Security as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Delaware Academy of Public Safety and Security's basic financial statements, and have issued our report thereon dated September 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Delaware Academy of Public Safety and Security's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Delaware Academy of Public Safety and Security's internal control. Accordingly, we do not express an opinion on the effectiveness of the Delaware Academy of Public Safety and Security'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 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 material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 13-1 and 13-2 that we consider to be significant deficiencies.

To the Board of Directors
Delaware Academy of Public Safety and Security
Newark, Delaware

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Delaware Academy of Public Safety and Security'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*.

Delaware Academy of Public Safety and Security's Response to Findings

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

Purpose of this Report

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

Maillie LLP

West Chester, Pennsylvania
September 19, 2013

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2013

Significant Deficiencies

13-1 Bank Reconciliations

Criteria: The reconciliation of bank accounts is an important control activity needed to adequately protect the School's assets and ensure accurate financial reporting.

Condition: Presently, the School does not reconcile the cash account maintained for the yearbook student activities on a timely basis.

Cause: The School has adopted a policy requiring completion of bank reconciliations on a timely basis but has not enforced the policy.

Effect or Potential Effect: Without proper reconciliations, the risk increases that errors or fraud related to cash could occur and not be detected within a timely basis.

Recommendation: Management should implement a formal process for reconciling cash accounts on a regular basis.

Responsible Official's Response: The School acknowledges the overlook and has adopted a monthly reconciliation process. The monthly reconciliation requires all outside account leads to meet and review monthly activity with the School's Business Manager. After verification, both parties will sign the reconciliation and attach to the bank statement.

13-2 Compensated Absences

Criteria: The tracking and reconciliation of compensated absences is an important control activity needed to adequately protect the School's assets and ensure accurate financial reporting.

Condition: Presently, the School does not have a system for tracking and reconciling the vacation and sick leave used and remaining.

Cause: The School has not adopted a process for recording and tracking vacation usage.

Effect or Potential Effect: Without proper reconciliations, the risk increases that errors or fraud related to compensated absences could occur and not be detected within a timely basis.

Recommendation: Management should consider a formal process for tracking and reconciling compensated absences on a regular basis.

Responsible Official's Response: The School has implemented a detail protocol which requires an absence form be signed and submitted to the Business Manager, within 24 hours of returning to work. The absence forms will be used to support an annual leave schedule, which will be maintained by the Business Manager and distributed to the Head of School and Office Manager on a weekly basis.

DELAWARE ACADEMY OF PUBLIC SAFETY AND SECURITY
(A Component Unit of the State of Delaware)
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

Significant Deficiencies

12-1 Bank Reconciliations

Finding: The reconciliation of bank accounts is an important control activity needed to adequately protect the School's assets and ensure accurate financial reporting. Presently, the School does not reconcile the cash account maintained for the student activities on a timely basis. Without proper reconciliations, the risk increases that errors or fraud related to cash could occur and not be detected within a timely basis.

Recommendation: Management should consider a formal process for reconciling cash accounts on a regular basis.

Current Year Status: The School provided bank reconciliations for all accounts except Yearbook.

12-2 Payroll Files

Finding: The maintenance of proper documentation for employee payroll costs and personnel records is an important control activity needed to protect the School's assets and ensure accurate financial reporting. We noted the following items during our review of the payroll records:

- One of the employees selected for testing did not have a copy of his employment contract in the employee file for audit.
- Three of the employees selected for payroll testing did not have any documentation in their payroll file to substantiate their pay rate.

The School has relied on access to state system and e-mail or verbal information without requiring the documentation be permanently maintained in the employee's payroll file. Without proper records, the risk increases that errors or fraud related to payroll could occur and not be detected on a timely basis.

Recommendation: Management should consider a formal process for obtaining and maintaining all payroll related information in an employee's file.

Current Year Status: The School has adopted a filing and new hire procedure designed to ensure all personnel files are complete and up to date.

12-3 Segregation of Duties - Cash Receipts

Finding: The segregation of duties related to cash receipts is an important control activity needed to adequately protect the School's assets and ensure accurate financial reporting. During the audit, we noted that the employee responsible for handling and depositing the cash receipts also posts the cash receipts, prepares the deposit slip and makes the deposit at the bank. Without proper procedures, the risk increases that errors or fraud related to cash could occur and not be detected on a timely basis.

Recommendation: Management should consider a process in which one employee receives cash receipts and prepares a listing of those receipts for comparison to the actual deposit. Another employee should be assigned the task of reviewing the list of receipts to the bank deposit receipt.

Current Year Status: The School has established procedures to ensure segregation of duties related to cash receipts.