

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**(A Local School District Fund of the**  
**State of Delaware)**  
**Wilmington, Delaware**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008**

RED CLAY CONSOLIDATED SCHOOL DISTRICT  
(A Local School District Fund of the State of Delaware)

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RED CLAY CONSOLIDATED SCHOOL DISTRICT  
(A Local School District Fund of the State of Delaware)

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## INDEPENDENT AUDITORS' REPORT

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March 12, 2010

Board of Directors  
Red Clay Consolidated School District  
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Red Clay Consolidated School District (the "District"), Wilmington, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the statement of net assets and the balance sheet at June 30, 2007. In addition, we were unable to verify opening capital assets and were unable to satisfy ourselves about opening capital assets through alternative procedures. Finally, the District has not implemented the provisions of GASB No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other nonpension benefits.

As discussed in Note 1, the financial statements present only the District and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of not including post-employment healthcare and other nonpension benefits and such adjustments, if any, as might have been determined to be necessary had we been able to audit opening balances and verify opening capital assets as referred to in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the remaining aggregate fund information of Red Clay Consolidated School District as of June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

Board of Directors  
Red Clay Consolidated School District

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Management has not presented the Management's Discussion and Analysis and the budgetary comparison statement. The Management's Discussion and Analysis and the budgetary comparison statement are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Red Clay Consolidated School District's basic financial statements. The schedules on pages 17 - 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
BARBACANE, THORNTON & COMPANY

## **BASIC FINANCIAL STATEMENTS SECTION**

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 40,594,610
Accounts receivable	131,504
Taxes receivable	2,182,041
Inventories	100,780
Land	8,514,257
Construction-in-progress	25,273,534
Land improvements	680,279
Buildings and improvements	238,878,506
Vehicles and equipment	4,083,564
Accumulated depreciation	<u>(92,838,139)</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 227,600,936</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES:</b>	
Accounts payable	\$ 4,444,060
Accrued salaries payable	7,021,303
Accrued interest payable	2,382,725
Long-term liabilities	
Portion due or payable within one year:	
Bonds payable	14,506,222
Accumulated compensated absences	56,158
Capital leases payable	226,626
Portion due or payable after one year:	
Bonds payable	148,583,497
Accumulated compensated absences	1,114,604
Capital leases payable	<u>1,022,816</u>
<b>TOTAL LIABILITIES</b>	<b><u>179,358,011</u></b>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	34,012,495
Restricted for debt service	4,444,777
Unrestricted	<u>9,785,653</u>
<b>Total Net Assets</b>	<b><u>48,242,925</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 227,600,936</u></b>

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

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
<b>GOVERNMENTAL ACTIVITIES</b>					<b>Total</b>
Instructional services	\$ 159,906,732	\$ -	\$ 9,626,669	\$ -	\$ (150,280,063)
Support services:					
Operation and maintenance of facilities	38,575,485	-	-	-	(38,575,485)
Transportation	7,589,984	-	-	-	(7,589,984)
Food service	8,013,516	2,056,979	5,405,264	-	(551,273)
Interest on long-term debt	9,028,997	-	-	-	(9,028,997)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 223,114,714</b>	<b>\$ 2,056,979</b>	<b>\$ 15,031,933</b>	<b>\$ -</b>	<b>(206,025,802)</b>
<b>GENERAL REVENUES</b>					
Property taxes					71,358,319
State aid					110,152,380
Investment earnings					1,644,285
Miscellaneous					2,510,980
<b>TOTAL GENERAL REVENUES</b>					<b>185,665,964</b>
<b>CHANGE IN NET ASSETS</b>					<b>(20,359,838)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>					<b>68,602,763</b>
<b>NET ASSETS, END OF YEAR</b>					<b>\$ 48,242,925</b>

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

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2008**

	General Fund	Major Capital Fund	Debt Service Fund	Totals
<b>ASSETS</b>				
Cash and cash equivalents	\$18,272,373	\$17,877,460	\$ 4,444,777	\$40,594,610
Accounts receivable	22,088	109,416	-	131,504
Taxes receivable	2,182,041	-	-	2,182,041
Inventories	100,780	-	-	100,780
<b>TOTAL ASSETS</b>	<u><u>\$20,577,282</u></u>	<u><u>\$17,986,876</u></u>	<u><u>\$ 4,444,777</u></u>	<u><u>\$43,008,935</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 216,839	\$ 4,227,221	\$ -	\$ 4,444,060
Accrued salaries payable	7,021,303	-	-	7,021,303
Accrued compensated absences	56,158	-	-	56,158
Deferred revenue	2,069,957	-	-	2,069,957
<b>Total Liabilities</b>	<u><u>9,364,257</u></u>	<u><u>4,227,221</u></u>	<u><u>-</u></u>	<u><u>13,591,478</u></u>
<b>FUND BALANCES:</b>				
Reserved for encumbrances	6,322,985	10,844,764	-	17,167,749
Reserved for debt service	-	-	4,444,777	4,444,777
Unreserved	4,890,040	2,914,891	-	7,804,931
<b>Total Fund Balances</b>	<u><u>11,213,025</u></u>	<u><u>13,759,655</u></u>	<u><u>4,444,777</u></u>	<u><u>29,417,457</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$20,577,282</u></u>	<u><u>\$17,986,876</u></u>	<u><u>\$ 4,444,777</u></u>	<u><u>\$43,008,935</u></u>

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

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 29,417,457

The amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets. 184,592,001

Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 2,069,957

Long-term liabilities applicable to the governmental activities are not due and payable in the current period and therefore are not reported as fund liabilities. Those liabilities consist of:

Compensated absences	\$ (1,114,604)	
Accrued interest	(2,382,725)	
Capital leases payable	(1,249,442)	
Bonds payable	<u>(163,089,719)</u>	<u>(167,836,490)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 48,242,925

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

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Major Capital Fund	Debt Service Fund	Totals
<b>REVENUES</b>				
Real estate taxes	\$ 61,785,011	\$ -	\$ 7,503,351	\$ 69,288,362
Licenses, fees, permits and fines	669,782	-	-	669,782
Rentals and sales	211,691	-	-	211,691
State aid	130,699,981	-	-	130,699,981
Federal aid	9,626,669	-	-	9,626,669
Interest and other investment income	840,270	-	804,015	1,644,285
Other	5,520,049	1,468,506	-	6,988,555
<b>TOTAL REVENUES</b>	<u>209,353,453</u>	<u>1,468,506</u>	<u>8,307,366</u>	<u>219,129,325</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	109,432,447	197,886	-	109,630,333
Other employment costs	45,710,453	43,254	-	45,753,707
Services CLI/AGN	8,010,982	-	-	8,010,982
Travel	115,397	-	-	115,397
Contract services	24,520,902	4,545,139	-	29,066,041
Supplies and materials	8,183,712	2,487	-	8,186,199
Computer equipment/software	4,283	-	-	4,283
Capital outlays:				
Equipment	955,108	-	-	955,108
Property	1,409,625	36,046,199	-	37,455,824
Debt service:				
Principal	8,830,359	-	7,150,405	15,980,764
Interest	3,200,141	-	3,446,131	6,646,272
<b>TOTAL EXPENDITURES</b>	<u>210,373,409</u>	<u>40,834,965</u>	<u>10,596,536</u>	<u>261,804,910</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>(1,019,956)</u>	<u>(39,366,459)</u>	<u>(2,289,170)</u>	<u>(42,675,585)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	13,915,736	-	2,339,963	16,255,699
Transfers out	(16,255,699)	-	-	(16,255,699)
Reverted state aid	(146,387)	-	-	(146,387)
Refund of prior year expenditures	459,481	-	-	459,481
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,026,869)</u>	<u>-</u>	<u>2,339,963</u>	<u>313,094</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(3,046,825)</u>	<u>(39,366,459)</u>	<u>50,793</u>	<u>(42,362,491)</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>14,259,850</u>	<u>53,126,114</u>	<u>4,393,984</u>	<u>71,779,948</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 11,213,025</u>	<u>\$13,759,655</u>	<u>\$ 4,444,777</u>	<u>\$ 29,417,457</u>

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

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$(42,362,491)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$25,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 30,119,227	
Depreciation expense	<u>(3,928,890)</u>	26,190,337

The issuance of long-term debt (e.g., notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Bond issuance	(18,757,500)	
Bond principal payments	13,680,764	
Capital lease principal payments	16,424	
Note principal payments	<u>2,300,000</u>	(2,760,312)

Because some property taxes will not be collected for several months after the District fiscal year ends, they are not considered as "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year. 2,069,957

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 funds.

Accrued interest	(2,382,725)	
Compensated absences	<u>(1,114,604)</u>	<u>(3,497,329)</u>

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$(20,359,838)

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

RED CLAY CONSOLIDATED SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS  
JUNE 30, 2008

	<u>Agency</u>
ASSETS	
Cash and investments	<u>\$ 2,241,796</u>
TOTAL ASSETS	<u><u>\$ 2,241,796</u></u>
 LIABILITIES	
Due to student groups	<u>\$ 2,241,796</u>
TOTAL LIABILITIES	<u><u>\$ 2,241,796</u></u>

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

## RED CLAY CONSOLIDATED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, Red Clay Consolidated School District (the "District") complies with generally accepted accounting principles ("GAAP"). GAAP includes all relevant Governmental Accounting Standards Board ("GASB") pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

##### Reporting Entity

The District is the primary government and is considered a local school district fund of the State of Delaware. As a state fund, although a legally separate entity, it is, in substance, part of the State of Delaware's operations. As such, the financial statements present only the District and do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with generally accepted accounting principles. The District has no component units for which it is considered to be financially accountable.

##### Entity-wide and Fund Financial Statements

The entity-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these financial statements.

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 grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

##### Measurement Focus, Basis of Accounting and Financial Statement Presentation

**Entity-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the District 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.

Amounts reported or to be reported as program revenues include 1) charges to students for special fees, 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.

The entity-wide financial statements report net assets in one of three components. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of borrowings attributable to acquiring, constructing or improving those assets. Net assets are reported as restricted when constraints placed on net asset 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

## RED CLAY CONSOLIDATED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

provisions or enabling legislation. Those restrictions affect net assets arising from the debt service fund. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement and post-employment healthcare benefits, are recorded only when payment is due.

State appropriations and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

The District reports the following major governmental funds:

- **General Fund.** The general fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- **Major Capital Fund.** The major capital fund is used to account for the proceeds of debt and for the acquisition, construction and renovation of major capital facilities and their related capital assets.
- **Debt Service Fund.** The debt service fund is used to account for funds set aside for debt service obligations.

#### Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

#### Capital Assets

Capital assets, which include property, plant and equipment, are reported in the entity-wide financial statements. The District defines capital assets as assets with an initial cost of more than \$25,000 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. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

## RED CLAY CONSOLIDATED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Land improvements	20 years
Buildings and improvements	40 years
Vehicles and equipment	5-10 years

#### Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the entity-wide financial statements. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

**Vacation** - Twelve-month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination and/or retirement at the current rate of pay.

**Sick Leave** - Sick leave allowances are as follows: teachers shall be allowed 10 days of sick leave per year and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit up to a maximum of 90 days. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

#### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

#### Departures from Generally Accepted Accounting Principles

The District has not implemented GASB No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions." In addition, opening balances including capital assets were qualified because no audit was performed in the prior year.

#### NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2008, the District has a cash equivalent balance of \$42,836,406. Of that amount, \$39,949,149 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware. All investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the District, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

RED CLAY CONSOLIDATED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND CASH EQUIVALENTS (cont'd)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a policy for custodial credit risk. At June 30, 2008, the carrying amount of deposits not held by the State Treasurer's Office was \$2,887,257 and the bank balance was \$2,958,196. Of the bank balance, \$520,212 was covered by federal depository insurance, and the remaining \$2,437,984 was collateralized by specific securities held at the bank on behalf of the District.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 is as follows:

	Balance 7/01/2007	Increases	Decreases	Reclassi- fication	Balance 6/30/2008
Governmental activities:					
Nondepreciable capital assets:					
Land	\$ 8,514,257	\$ -	\$ -	\$ -	\$ 8,514,257
Construction-in-progress	40,609,710	26,968,706	-	(42,304,882)	25,273,534
Total Nondepreciable Capital Assets	<u>\$ 49,123,967</u>	<u>\$26,968,706</u>	<u>\$ -</u>	<u>(42,304,882)</u>	<u>\$ 33,787,791</u>
Depreciable capital assets:					
Land improvements	\$ 611,299	\$ 68,980	\$ -	\$ -	\$ 680,279
Buildings and improvements	194,447,191	2,126,433	-	42,304,882	238,878,506
Vehicles and equipment*	1,899,155	2,184,409	-	-	4,083,564
	<u>196,957,645</u>	<u>4,379,822</u>	<u>-</u>	<u>42,304,882</u>	<u>243,642,349</u>
Accumulated depreciation	88,909,249	3,928,890	-	-	92,838,139
Depreciable Capital Assets, Net	<u>\$108,048,396</u>	<u>\$ 450,932</u>	<u>\$ -</u>	<u>\$ 42,304,882</u>	<u>\$150,804,210</u>

\* Included in vehicles and equipment is a current year addition of \$1,229,301 for a capital lease.

Depreciation expense was charged to the following activities:

Governmental activities:	
Instructional activities	\$ 2,614,284
Operation and maintenance of facilities	1,181,417
Transportation	133,189
	<u>\$ 3,928,890</u>

NOTE 4 LEASES – LESSEE

Capital Leases

The District entered into lease agreements as lessee for financing the acquisition of capital assets. These lease agreements for computer and copier equipment entered into on May 2, 2006 and April 1, 2008, respectively, qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

RED CLAY CONSOLIDATED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LEASES – LESSEE (cont'd)

The assets acquired through the capital leases are as follows:

Computers	\$ 55,484
Copiers	1,229,301
Less: Accumulated depreciation	<u>(91,481)</u>
TOTAL	<u>\$ 1,193,304</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008 were as follows:

Year Ending June 30,

2009	\$ 291,499
2010	275,354
2011	272,580
2012	272,580
2013	<u>272,580</u>
Total minimum lease payments	1,384,593
Less: Amount representing interest	<u>(135,151)</u>
Present value of minimum lease payments	<u>\$ 1,249,442</u>

Lease payments were \$18,919 for the year ended June 30, 2008.

Operating Leases

The District entered into lease agreements as lessee for office space and software on March 1, 2006 and September 16, 2003, respectively, with current approximate monthly installment payments of \$60,070. The future minimum lease payments as of June 30, 2008 were as follows:

Year Ending June 30,

2009	\$ 720,834
2010	741,311
2011	761,976
2012	638,365
2013	<u>432,978</u>
Total minimum lease payments	<u>\$ 3,295,464</u>

Lease payments were \$724,279 for the year ended June 30, 2008.

## RED CLAY CONSOLIDATED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT

The following summarizes the changes in general long-term debt for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
General obligation bonds	\$ 158,012,983	\$ 18,757,500	\$ 13,680,764	\$ 163,089,719
Notes payable	2,300,000	-	2,300,000	-
Totals	<u>\$ 160,312,983</u>	<u>\$ 18,757,500</u>	<u>\$ 15,980,764</u>	<u>\$ 163,089,719</u>

Presented below is a summary of debt service requirements to maturity by years:

<u>Year Ending June 30,</u>	<u>Principal Maturities</u>	<u>Interest Maturities</u>	<u>Total Maturities</u>
2009	\$ 14,506,222	\$ 7,016,847	\$ 21,523,069
2010	14,362,011	6,377,668	20,739,679
2011	14,304,905	5,624,098	19,929,003
2012	13,656,660	5,129,314	18,785,974
2013	13,898,851	4,258,145	18,156,996
2014-2018	60,634,557	13,295,685	73,930,242
2019-2023	22,159,505	4,314,279	26,473,784
2024-2027	9,567,008	623,103	10,190,111
	<u>\$163,089,719</u>	<u>\$ 46,639,139</u>	<u>\$209,728,858</u>

The general obligation bonds have interest rates ranging from 2.94 percent to 5.36 percent and a final maturity of August 1, 2026.

NOTE 6 PENSION PLANPlan Description

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

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

- Early retirement:
  - a. 15 years service - age 55
  - b. 25 years service - any age

RED CLAY CONSOLIDATED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

- Service retirement:
  - a. 15 years service - age 60
  - b. 30 years service - any age
  - c. 5 years service - age 62
- Disability retirement:
  - a. 5 years service and proof of disability
- Vested pension - an employee can vest pension rights after five years of service.

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

Funding Policy

Employees of the District are required to contribute three percent of earnings in excess of \$6,000. The District's pension expense for the years ended June 30, 2008, 2007 and 2006 was \$16,229,830, \$15,724,208 and \$14,154,565, respectively.

NOTE 7 RISK MANAGEMENT

The District 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 District. Insurance settlements have not exceeded insurance coverage in the past year.

NOTE 8 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The District does not anticipate losses from these transactions.

Grants

The District receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the State of Delaware Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the general fund. The District's administration believes such disallowance, if any, would be immaterial.

## **SUPPLEMENTARY SECTION**

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**COMBINING CONSOLIDATED BALANCE SHEET - GENERAL FUND**  
**JUNE 30, 2008**

	State Allocation	Local Funding	Federal Funding	Totals
<b>ASSETS</b>				
Cash and investments	\$7,543,964	\$10,728,409	\$ -	\$18,272,373
Accounts receivable	-	22,088	-	22,088
Taxes receivable	-	2,182,041	-	2,182,041
Inventories	-	100,780	-	100,780
<b>TOTAL ASSETS</b>	<u>\$7,543,964</u>	<u>\$13,033,318</u>	<u>\$ -</u>	<u>\$20,577,282</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 15,041	\$ 201,798	\$ -	\$ 216,839
Accrued salaries payable	-	7,021,303	-	7,021,303
Accrued compensated absences	-	56,158	-	56,158
Deferred revenue	-	2,069,957	-	2,069,957
<b>TOTAL LIABILITIES</b>	<u>15,041</u>	<u>9,349,216</u>	<u>-</u>	<u>9,364,257</u>
<b>FUND BALANCES:</b>				
Reserved for encumbrances	5,947,405	375,580	-	6,322,985
Unreserved	1,581,518	3,308,522	-	4,890,040
<b>TOTAL FUND BALANCES</b>	<u>7,528,923</u>	<u>3,684,102</u>	<u>-</u>	<u>11,213,025</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$7,543,964</u>	<u>\$13,033,318</u>	<u>\$ -</u>	<u>\$20,577,282</u>

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**COMBINING CONSOLIDATED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	State Allocation	Local Funding	Federal Funding	Totals
<b>REVENUES</b>				
Real estate taxes	\$ -	\$61,785,011	\$ -	\$ 61,785,011
Licenses, fees, permits and fines	-	669,782	-	669,782
Rentals and sales	-	211,691	-	211,691
State aid	130,699,981	-	-	130,699,981
Federal aid	-	-	9,626,669	9,626,669
Interest and other investment income	-	840,270	-	840,270
Other	-	5,520,049	-	5,520,049
<b>TOTAL REVENUES</b>	<u>130,699,981</u>	<u>69,026,803</u>	<u>9,626,669</u>	<u>209,353,453</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	65,686,238	38,975,083	4,771,126	109,432,447
Other employment costs	30,784,860	12,851,712	2,073,881	45,710,453
Services CLI/AGN	968,186	7,042,796	-	8,010,982
Travel	29,073	33,748	52,576	115,397
Contract services	12,702,082	9,673,660	2,145,160	24,520,902
Supplies and materials	2,609,135	4,990,651	583,926	8,183,712
Computer equipment/software	4,283	-	-	4,283
Capital outlays:				
Equipment	899,924	55,184	-	955,108
Property	1,327,982	81,643	-	1,409,625
Debt service:				
Principal	8,830,359	-	-	8,830,359
Interest	3,200,141	-	-	3,200,141
<b>TOTAL EXPENDITURES</b>	<u>127,042,263</u>	<u>73,704,477</u>	<u>9,626,669</u>	<u>210,373,409</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>3,657,718</u>	<u>(4,677,674)</u>	<u>-</u>	<u>(1,019,956)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	-	13,915,736	-	13,915,736
Transfers out	(5,796,200)	(10,459,499)	-	(16,255,699)
Reverted state aid	(146,387)	-	-	(146,387)
Refund of prior year expenditures	4,901	454,580	-	459,481
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(5,937,686)</u>	<u>3,910,817</u>	<u>-</u>	<u>(2,026,869)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(2,279,968)</u>	<u>(766,857)</u>	<u>-</u>	<u>(3,046,825)</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>9,808,891</u>	<u>4,450,959</u>	<u>-</u>	<u>14,259,850</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 7,528,923</u>	<u>\$ 3,684,102</u>	<u>\$ -</u>	<u>\$ 11,213,025</u>

**RED CLAY CONSOLIDATED SCHOOL DISTRICT  
COMBINING BALANCE SHEET - GENERAL FUND  
(RED CLAY - DIVISION 32)  
JUNE 30, 2008**

	State Allocation	Local Funding	Totals
<b>ASSETS</b>			
Cash and investments	\$ 7,468,136	\$ 9,392,389	\$ 16,860,525
Accounts receivable	-	22,088	22,088
Taxes receivable	-	2,182,041	2,182,041
Inventories	-	100,780	100,780
<b>TOTAL ASSETS</b>	<u>\$ 7,468,136</u>	<u>\$ 11,697,298</u>	<u>\$ 19,165,434</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 15,041	\$ 144,493	\$ 159,534
Accrued salaries payable	-	5,937,187	5,937,187
Accrued compensated absences	-	56,158	56,158
Deferred revenue	-	2,069,957	2,069,957
<b>TOTAL LIABILITIES</b>	<u>15,041</u>	<u>8,207,795</u>	<u>8,222,836</u>
<b>FUND BALANCES:</b>			
Reserved for encumbrances	5,900,166	29,232	5,929,398
Unreserved	1,552,929	3,460,271	5,013,200
<b>TOTAL FUND BALANCES</b>	<u>7,453,095</u>	<u>3,489,503</u>	<u>10,942,598</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 7,468,136</u>	<u>\$ 11,697,298</u>	<u>\$ 19,165,434</u>

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GENERAL FUND**  
**(RED CLAY - DIVISION 32)**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	State Allocation	Local Funding	Federal Funding	Totals
<b>REVENUES</b>				
Real estate taxes	\$ -	\$61,785,011	\$ -	\$ 61,785,011
Licenses, fees, permits and fines	-	669,782	-	669,782
Rentals and sales	-	211,691	-	211,691
State aid	121,952,250	-	-	121,952,250
Federal aid	-	-	9,567,068	9,567,068
Interest and other investment income	-	790,442	-	790,442
Other	-	5,309,961	-	5,309,961
<b>TOTAL REVENUES</b>	<u>121,952,250</u>	<u>68,766,887</u>	<u>9,567,068</u>	<u>200,286,205</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	60,523,067	33,287,096	4,726,949	98,537,112
Other employment costs	27,861,465	10,584,169	2,058,457	40,504,091
Services CLI/AGN	968,186	7,042,796	-	8,010,982
Travel	26,178	32,733	52,576	111,487
Contract services	12,307,391	8,031,151	2,145,160	22,483,702
Supplies and materials	2,399,857	4,741,947	583,926	7,725,730
Computer equipment/software	4,193	-	-	4,193
Capital outlays:				
Equipment	899,924	55,184	-	955,108
Property	1,327,982	81,643	-	1,409,625
Debt service:				
Principal	8,830,359	-	-	8,830,359
Interest	3,200,141	-	-	3,200,141
<b>TOTAL EXPENDITURES</b>	<u>118,348,743</u>	<u>63,856,719</u>	<u>9,567,068</u>	<u>191,772,530</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>3,603,507</u>	<u>4,910,168</u>	<u>-</u>	<u>8,513,675</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	-	4,387,216	-	4,387,216
Transfers out	(5,796,200)	(10,459,499)	-	(16,255,699)
Reverted state aid	(144,933)	-	-	(144,933)
Refund of prior year expenditures	4,901	454,580	-	459,481
<b>TOTAL OTHER FINANCING USES</b>	<u>(5,936,232)</u>	<u>(5,617,703)</u>	<u>-</u>	<u>(11,553,935)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(2,332,725)</u>	<u>(707,535)</u>	<u>-</u>	<u>(3,040,260)</u>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>9,785,820</u>	<u>4,197,038</u>	<u>-</u>	<u>13,982,858</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 7,453,095</u>	<u>\$ 3,489,503</u>	<u>\$ -</u>	<u>\$ 10,942,598</u>

**RED CLAY CONSOLIDATED SCHOOL DISTRICT  
COMBINING BALANCE SHEET - GENERAL FUND  
(MEADOWOOD SCHOOL - DIVISION 54)  
JUNE 30, 2008**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and investments	<u>\$ 55,240</u>	<u>\$ 596,306</u>	<u>\$ 651,546</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 55,240</u></u>	<u><u>\$ 596,306</u></u>	<u><u>\$ 651,546</u></u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ 33,952	\$ 33,952
Accrued salaries payable	<u>-</u>	<u>495,720</u>	<u>495,720</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>529,672</u>	<u>529,672</u>
<b>FUND BALANCES (DEFICIT):</b>			
Reserved for encumbrances	26,682	154,397	181,079
Unreserved (Deficit)	<u>28,558</u>	<u>(87,763)</u>	<u>(59,205)</u>
<b>TOTAL FUND BALANCES</b>	<u>55,240</u>	<u>66,634</u>	<u>121,874</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 55,240</u></u>	<u><u>\$ 596,306</u></u>	<u><u>\$ 651,546</u></u>

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GENERAL FUND**  
**(MEADOWOOD SCHOOL - DIVISION 54)**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	State Allocation	Local Funding	Federal Funding	Totals
REVENUES				
State aid	\$ 3,667,514	\$ -	\$ -	\$ 3,667,514
Federal aid	-	-	59,601	59,601
Interest and other investment income	-	23,496	-	23,496
Other	-	32,248	-	32,248
TOTAL REVENUES	<u>3,667,514</u>	<u>55,744</u>	<u>59,601</u>	<u>3,782,859</u>
EXPENDITURES				
Current:				
Salaries	2,117,638	2,849,636	44,177	5,011,451
Other employment costs	1,262,282	1,159,566	15,424	2,437,272
Travel	2,588	934	-	3,522
Contract services	152,248	782,109	-	934,357
Supplies and materials	99,021	101,296	-	200,317
Computer equipment/software	90	-	-	90
TOTAL EXPENDITURES	<u>3,633,867</u>	<u>4,893,541</u>	<u>59,601</u>	<u>8,587,009</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>33,647</u>	<u>(4,837,797)</u>	<u>-</u>	<u>(4,804,150)</u>
OTHER FINANCING SOURCES				
Transfer in	-	4,792,516	-	4,792,516
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>4,792,516</u>	<u>-</u>	<u>4,792,516</u>
NET CHANGE IN FUND BALANCES	33,647	(45,281)	-	(11,634)
FUND BALANCES, BEGINNING OF YEAR	<u>21,593</u>	<u>111,915</u>	<u>-</u>	<u>133,508</u>
FUND BALANCES, END OF YEAR	<u>\$ 55,240</u>	<u>\$ 66,634</u>	<u>\$ -</u>	<u>\$ 121,874</u>

**RED CLAY CONSOLIDATED SCHOOL DISTRICT  
COMBINING BALANCE SHEET - GENERAL FUND  
(INTENSIVE LEARNING CENTER - DIVISION 58)  
JUNE 30, 2008**

	<u>State Allocation</u>	<u>Local Funding</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and investments	\$ 20,588	\$ 739,714	\$ 760,302
<b>TOTAL ASSETS</b>	<u>\$ 20,588</u>	<u>\$ 739,714</u>	<u>\$ 760,302</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ 23,353	\$ 23,353
Accrued salaries payable	-	588,396	588,396
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>611,749</u>	<u>611,749</u>
<b>FUND BALANCES (DEFICIT):</b>			
Reserved for encumbrances	20,557	191,951	212,508
Unreserved (Deficit)	31	(63,986)	(63,955)
<b>TOTAL FUND BALANCES</b>	<u>20,588</u>	<u>127,965</u>	<u>148,553</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 20,588</u>	<u>\$ 739,714</u>	<u>\$ 760,302</u>

**RED CLAY CONSOLIDATED SCHOOL DISTRICT**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GENERAL FUND**  
**(INTENSIVE LEARNING CENTER - DIVISION 58)**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	State Allocation	Local Funding	Totals
<b>REVENUES</b>			
State aid	\$ 5,080,217	\$ -	\$ 5,080,217
Interest and other investment income	-	26,332	26,332
Other	-	177,840	177,840
<b>TOTAL REVENUES</b>	<u>5,080,217</u>	<u>204,172</u>	<u>5,284,389</u>
<b>EXPENDITURES</b>			
Current:			
Salaries	3,045,533	2,838,351	5,883,884
Other employment costs	1,661,113	1,107,977	2,769,090
Travel	307	81	388
Contract services	242,443	860,400	1,102,843
Supplies and materials	110,257	147,408	257,665
<b>TOTAL EXPENDITURES</b>	<u>5,059,653</u>	<u>4,954,217</u>	<u>10,013,870</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>20,564</u>	<u>(4,750,045)</u>	<u>(4,729,481)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	-	4,736,004	4,736,004
Reverted state aid	(1,454)	-	(1,454)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,454)</u>	<u>4,736,004</u>	<u>4,734,550</u>
<b>NET CHANGE IN FUND BALANCES</b>	19,110	(14,041)	5,069
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>1,478</u>	<u>142,006</u>	<u>143,484</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 20,588</u>	<u>\$ 127,965</u>	<u>\$ 148,553</u>

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

200 Springer Building  
3411 Silverside Road  
Wilmington, Delaware 19810  
302.478.8940  
FAX: 302.477.1607  
www.btcpa.com

March 12, 2010

Board of Directors  
Red Clay Consolidated School District  
Wilmington, Delaware

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Red Clay Consolidated School District, Wilmington, Delaware as of and for the year ended June 30, 2008 and have issued our report thereon dated March 12, 2010. In our report, our opinion was qualified because we could not audit opening balances nor verify capital assets, and because the District did not implement the provisions of GASB No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other nonpension benefits. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data

Board of Directors  
Red Clay Consolidated School District

reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. The significant deficiencies are described in the accompanying schedule of findings and recommendations as items #08-1 and #08-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying schedule of findings and recommendations are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red Clay Consolidated School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

  
BARBACANE, THORNTON & COMPANY

RED CLAY CONSOLIDATED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

NUTRITION CASH PROCEDURES

**08-1** Finding

During our current year audit, we noted that cash was recorded for federal reimbursements prior to the actual date of receipt in an effort to match revenues with their associated expenditures. In accordance with generally accepted accounting principles, cash should be recorded when received, not when it is earned. As a result, cash was overstated in QuickBooks by approximately \$25,000 at year end. This also caused an issue with the Bi-Annual Financial Report, whereby cash was incorrectly presented. This situation occurred because the preparer did not fully understand the difference between the cash basis and the accrual basis of accounting. The report preparer attempted to compile the report information on a cash basis; however, this still resulted in errors and was insufficiently supported.

Recommendation

We recommend that cash be recognized in QuickBooks only when received. It is our belief that individual schools' fund usage can still be monitored without switching to an accrual methodology, which unnecessarily complicates the required reporting for school lunch, breakfast and snack programs.

NUTRITION CAPITAL ASSETS

**08-2** Finding

During our current year audit, we noted that the Nutrition Department does not maintain a listing of fixed assets at historical cost according to generally accepted accounting principles. Under accounting rules required by GASB Statement No. 34, all capital assets of a governmental entity must be recorded at the entity-wide perspective in the statement of net assets. The Nutrition Department was not aware of this practice. As a result, capital assets were understated as it relates to the Nutrition Department.

Recommendation

We recommend that the Nutrition Department set up a detailed fixed asset listing prepared on a basis demonstrating conformity with generally accepted accounting principles.