



SUSSEX ACADEMY OF ARTS & SCIENCES
(A Component Unit of the State of Delaware)
GEORGETOWN, DELAWARE

FINANCIAL STATEMENTS

JUNE 30, 2014

SUSSEX ACADEMY OF ARTS & SCIENCES
(A Component Unit of the State of Delaware)

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INDEPENDENT AUDITOR'S REPORT

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October 14, 2014

Board of Directors
Sussex Academy of Arts & Sciences
Georgetown, Delaware

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the governmental fund, and the aggregate remaining fund information of Sussex Academy of Arts & Sciences (the "School"), Georgetown, Delaware (a component unit of the State of Delaware) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 auditor's 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 School'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 School'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 governmental fund, and the aggregate remaining fund information of Sussex Academy of Arts & Sciences as of June 30, 2014, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the beginning governmental activities net position and the beginning general fund balance of the School has been restated to correct an error. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 9 and budgetary comparison information on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sussex Academy of Arts & Sciences' basic financial statements. The combining balance sheet - governmental fund; combining statement of revenues, expenditures, and changes in fund balances - governmental fund; schedule of expenditures by natural classification - governmental fund; and budgetary comparison schedule - governmental funds - cash basis are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining balance sheet - governmental fund; combining statement of revenues, expenditures, and changes in fund balances - governmental fund; schedule of expenditures by natural classification - governmental fund; and budgetary comparison schedule - governmental funds - cash basis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures,

Board of Directors
Sussex Academy of Arts & Sciences

including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheet - governmental fund; combining statement of revenues, expenditures, and changes in fund balances - governmental fund; schedule of expenditures by natural classification - governmental fund; and budgetary comparison schedule - governmental funds - cash basis are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014 on our consideration of Sussex Academy of Arts & Sciences' 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 Sussex Academy of Arts & Sciences' internal control over financial reporting and compliance.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
YEAR ENDED JUNE 30, 2014**

Our discussion and analysis of the School's financial performance provides an overview of the financial activities for the year ended June 30, 2014. Please read it in conjunction with the Independent Auditor's Report on pages 1 - 3, and the School's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

The net position of the School increased by \$150,642 or 10.58 percent. Program revenues accounted for \$326,419 or 7.67 percent of total revenues, and the general revenues accounted for \$3.9 million or 92.33 percent of total revenues. Also, the general fund reported a positive fund balance of \$1,239,519.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This comprehensive annual financial report consists of a series of financial statements and related notes to those statements. The statements are organized so the reader can understand the School as a whole, and then to provide an increasingly detailed look at specific financial activities.

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Position and Statement of Activities

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 in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by private sector corporations. All of the year's revenues and expenses are taken into consideration regardless of when the cash is received or paid. These two statements report the School's net position and changes thereof. 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 and facility conditions in arriving at their conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major fund and fund financial statements begins on page 12. These statements provide detailed information about the most significant funds and not the School as a whole. Certain funds are required to be established by State statute, while many other funds may be established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the School's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting,

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2014**

which measures cash and other financial assets that can readily be converted to cash. The statements of the governmental fund provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or less financial resources available to spend in the near future to finance the School's programs. The difference between governmental activities (reported in the statement of net position and the statement of activities) and the governmental fund is reconciled in the basic financial statements.

Fiduciary Funds

The School is fiduciary for its student and other activity assets and other commitments that, due to a fiduciary arrangement, can only be used for the student activities and other related organizations and other commitments. All of the School's fiduciary activities are reported in a separate statement of fiduciary net position on page 16. These activities are excluded from the School's other financial statements since these assets may not be utilized by the School to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$1,574,961 at the close of the fiscal year. The largest portion of the School's total assets is cash and equivalents (75.90 percent), other assets (0.10 percent), and capital assets net of depreciation (24.00 percent). The School uses capital assets to provide services; consequently, capital assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay such debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt obligations.

A summarized comparative analysis for the fiscal year 2014 to 2013 follows:

Table 1 Net Position		
	Governmental Activities	
	2014	2013
Current and Other Assets		
Current assets	\$ 1,554,023	\$ 1,754,231
Capital assets, net of depreciation	490,639	28,034
Total Assets	2,044,662	1,782,265
Liabilities		
Current liabilities	328,865	284,809
Long-term liabilities	140,836	73,137
Total Liabilities	469,701	357,946
Net Position		
Net investment in capital assets	413,244	28,034
Restricted for specific programs	1,651	772
Unrestricted	1,160,066	1,395,513
Total Net Position	\$ 1,574,961	\$ 1,424,319

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2014**

The School may use the balance of unrestricted net position of \$1,160,066, reflected above in Table 1, to meet future operating activities.

The School is pleased to report positive balances in net position for the government as a whole.

Table 2, which follows, reflects the School's revenues received by funding source and how the funding received was expended by function.

**Table 2
Change in Net Position**

	Governmental Activities	
	2014	2013
Revenues:		
Charges to school districts	\$ 746,186	\$ 629,918
State aid not restricted to specific purposes	3,155,055	2,578,677
Earnings on cash and equivalents	7,164	8,943
Miscellaneous revenue	22,307	1,490
Total general revenues	3,930,712	3,219,028
Program revenues:		
Federal aid	131,392	96,598
Capital grants and contributions	157,480	-
Facilities rental	16,402	-
School cafeteria fees	21,145	18,462
Total revenues	4,257,131	3,334,088
Expenses:		
Instructional services	3,306,852	2,665,064
Supporting services:		
Operation and maintenance of facilities	481,265	329,979
Transportation	279,034	255,173
School food service	39,338	34,797
Total expenses	4,106,489	3,285,013
Change in net position	\$ 150,642	\$ 49,075

Governmental Activities

The net position of the School's governmental activities increased by \$150,642, and unrestricted net position reflects a positive balance of \$1,160,066. The increase in the net position for both the current and prior years is primarily the result of the School's modest increases in the level of funding and also an increase in capital contributions to assist the School in purchasing certain capital assets as a result of moving into a new school building.

The statement of activities shows the cost of program services and the charges for services, and grants and contributions offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2014**

activities. General revenues which include charges to school districts, State aid not restricted for specific purposes, cash and investment earnings, and other local revenues must support the net cost of the programs.

	Services			
	2014		2013	
	Total Cost	Net Cost	Total Cost	Net Cost
Governmental activities				
Instructional services	\$ 3,306,852	\$ 3,033,296	\$ 2,665,064	\$ 2,583,667
Support services:				
Operation and maintenance of facilities	481,265	464,863	329,979	329,979
Transportation	279,034	279,034	255,173	(72,886)
School food services	39,338	2,877	34,797	1,134
Total expenses	\$ 4,106,489	\$ 3,780,070	\$ 3,285,013	\$ 2,841,894

The reliance on general revenues to support the governmental activities is reflected by the net cost services' columns, which basically indicate the need for general support to fund School operations.

THE SCHOOL'S FUNDS

The governmental fund (as presented on the balance sheet on page 12) reported a fund balance of \$1,239,519, which is less than last year's total of \$1,469,422. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2014.

	2014	2013	(Decrease)
General Fund	\$ 1,239,519	\$ 1,469,422	\$ (229,903)

General Fund

The decrease in the School's fund balance of the general fund is partly due to increases in personnel expenditures and related employment costs as a result of hiring more full-time employees and additional classroom support for increased needs for special education. The School also moved into a larger building which has related increased maintenance costs such as public utility costs, insurance, boiler systems, and HVAC systems that had not been properly maintained in the past. In addition, there were increased costs associated with additional services for special needs students such as psychological evaluations, occupational therapy, and physical therapy. The School implemented a new program called International Baccalaureate. The School also purchased more supplies and materials as a result of moving into a new building such as new technology equipment, new school furniture, and new school lockers. In addition, the School added a new grade level, which led to purchasing of new text books and additional technology equipment. The School also purchased a new school bus through a capital lease.

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2014**

Even though there was an overall decrease in the general fund, fund balance revenues increased from the prior year due to increases in federal and state funding and also charges from school districts. In addition, there was an increase in contributions to assist the School in purchasing equipment and supplies as a result of relocating to a new building. The tables that follow will assist the reader in evaluating the financial activities as compared to the prior year.

	Amounts		Percentage (%) Change
	2014	2013	
Revenues			
Charges to school districts	\$ 746,186	\$ 629,918	18.46%
State sources	3,155,055	2,578,677	22.35%
Federal sources	131,392	96,598	36.02%
Earnings on cash and equivalents	7,164	8,943	-19.89%
School food service fees	21,145	18,462	14.53%
Facilities rental	16,402	-	100.00%
Contributions	157,480	-	100.00%
Miscellaneous revenue	22,167	60,446	-63.33%
Total revenues	\$ 4,256,991	\$ 3,393,044	25.46%

The largest portions of general fund expenditures are for personnel costs, which include salaries and related employment costs. The School is a service-oriented organization and, as such, is very labor intensive.

	Amounts		Percentage (%) Change
	2014	2013	
Expenditures by Object			
Current:			
Instruction services	\$ 3,284,930	\$ 2,613,033	25.71%
Supporting services:			
Operation and maintenance of facilities	507,643	329,979	53.84%
Transportation	373,692	255,173	46.45%
School food services	39,338	34,797	13.05%
Capital outlay	358,826	41,247	769.94%
Debt service	17,263	-	100.00%
Total expenditures by object	\$ 4,581,692	\$ 3,274,229	39.93%

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2014**

GENERAL FUND BUDGET INFORMATION

The most significant budgeted fund is the general fund, which is presented on the modified accrual basis of accounting.

CAPITAL ASSETS

The School has \$490,639 invested in capital assets, net of depreciation. During the current year, the School made capital acquisitions of \$519,557 and incurred depreciation expense of \$56,952. Due to the School relocating to a new building, the School purchased significant capital assets.

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

- Purchase of school lockers totaling \$31,598.
- Purchase of school furniture totaling \$234,191.
- Purchase of Apple computers totaling \$39,044.
- Capital lease purchase of a school bus totaling \$94,658.

Detailed information regarding capital assets is reflected in Note 3 of the financial statements.

DEBT OBLIGATIONS

During the fiscal year, the School entered into a capital lease to purchase a 2014 Blue Bird school bus. The outstanding balance of the capital lease obligation as of June 30, 2014 totaled \$77,395. The School is also committed to certain leasing arrangements described in Note 7 to the financial statements.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

The School's student population and revenue for grades six through eight is stable. The enrollment for the high school grades is currently lower than anticipated but has been increasing annually as the School grows. It is expected that, by the 2017 school year, the incoming ninth grade will be at full capacity (110 students). Since the School has no direct taxing authority, it is reliant upon federal and state revenues that are passed through to the School by the State, as well as local support. In order to maintain a school that thrives on innovation and quality, the School continues to seek other sources of revenue.

The School has also been approved for a charter modification allowing it to establish a high school.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, investors, and creditors with a general overview of the School's finances and to show the School's accountability for the funding received. If you have questions about this report or need additional financial information, contact the School's Finance Office at (302) 856-3636.

BASIC FINANCIAL STATEMENTS

SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 1,551,898
Accounts receivable	2,125
Total Current Assets	<u>1,554,023</u>

NONCURRENT ASSETS:

Depreciable capital assets, net	490,639
Total Noncurrent Assets	<u>490,639</u>
TOTAL ASSETS	<u><u>\$ 2,044,662</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Accounts payable	\$ 18,566
Accrued salaries	295,938
Capital lease	14,361
Total Current Liabilities	<u>328,865</u>

NONCURRENT LIABILITIES:

Capital lease	63,034
Compensated absences	77,802
Total Noncurrent Liabilities	<u>140,836</u>

TOTAL LIABILITIES	<u>469,701</u>
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NET POSITION

Net investment in capital assets	413,244
Restricted	1,651
Unassigned	1,160,066
TOTAL NET POSITION	<u>1,574,961</u>

TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 2,044,662</u></u>
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SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ (3,306,852)	\$ -	\$ 116,076	\$ 157,480	\$ (3,033,296)
Support services:					
Operation and maintenance of facilities	(481,265)	16,402	-	-	(464,863)
Transportation	(279,034)	-	-	-	(279,034)
School food services	(39,338)	21,145	15,316	-	(2,877)
TOTAL GOVERNMENT ACTIVITIES	\$ (4,106,489)	\$ 37,547	\$ 131,392	\$ 157,480	(3,780,070)
GENERAL REVENUES					
Charges to school districts					746,186
State aid not restricted to specific purposes					3,155,055
Earnings on cash and investments					7,164
Other local sources					22,307
TOTAL GENERAL REVENUES					3,930,712
CHANGE IN NET POSITION					150,642
NET POSITION, BEGINNING OF YEAR					1,424,319
NET POSITION, END OF YEAR					\$ 1,574,961

**SUSSEX ACADEMY OF ARTS & SCIENCES
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2014**

ASSETS

Cash and cash equivalents	\$ 1,551,898
Accounts receivable	2,125
TOTAL ASSETS	<u>\$ 1,554,023</u>

LIABILITIES AND FUND BALANCE

LIABILITIES:

Accounts payable	\$ 18,566
Accrued salaries	295,938
TOTAL LIABILITIES	<u>314,504</u>

FUND BALANCE:

Restricted	1,651
Unassigned	1,237,868
TOTAL FUND BALANCE	<u>1,239,519</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,554,023</u>
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**SUSSEX ACADEMY OF ARTS & SCIENCES
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND
TO STATEMENT OF NET POSITION
JUNE 30, 2014**

TOTAL FUND BALANCE - GOVERNMENTAL FUND	\$ 1,239,519
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The total net position reported for governmental activities in the statement of net position is different because:

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

490,639

Long-term liabilities applicable to the governmental activities are not due and payable in the current year and, accordingly, are not reported as fund liabilities.

Capital lease	\$	(77,395)	
Compensated absences		(77,802)	(155,197)

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,574,961</u></u>
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**SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

REVENUES

Charges to school districts	\$ 746,186
State sources	3,155,055
Federal sources	131,392
Food service revenue	21,145
Earnings on cash and cash equivalents	7,164
Facilities rental	16,402
Contributions	157,480
Miscellaneous revenue	22,167
TOTAL REVENUES	<u><u>4,256,991</u></u>

EXPENDITURES

Current:

Instructional services	3,284,930
Operation and maintenance of facilities	507,643
Transportation	373,692
Food services	39,338
Capital outlays	358,826
Debt service:	
Principal	17,263
TOTAL EXPENDITURES	<u><u>4,581,692</u></u>

**DEFICIENCY OF REVENUES UNDER
EXPENDITURES**

(324,701)

OTHER FINANCING SOURCES

Refund of prior year expenditures	140
Capital lease	94,658
TOTAL OTHER FINANCING SOURCES	<u><u>94,798</u></u>

NET CHANGE IN FUND BALANCE

(229,903)

FUND BALANCE, BEGINNING OF YEAR

1,469,422

FUND BALANCE, END OF YEAR

\$ 1,239,519

SUSSEX ACADEMY OF ARTS & SCIENCES
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ (229,903)

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

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,500 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 519,557	
Depreciation expense	<u>(56,952)</u>	462,605

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 position.

Issuance of capital lease	(94,658)	
Payment of capital lease	<u>17,263</u>	(77,395)

Some expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences		<u>(4,665)</u>
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CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$ 150,642</u></u>
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**SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUND
JUNE 30, 2014**

ASSETS

Cash and cash equivalents	<u>\$ 41,411</u>
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LIABILITIES

Due to student groups	<u>\$ 41,411</u>
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NET POSITION

Unrestricted	<u>-</u>
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TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 41,411</u></u>
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SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

Sussex Academy of Arts & Sciences is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. An initial charter is granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state, and federal funds, they may not charge tuition.

The financial statements of Sussex Academy of Arts & Sciences have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Sussex Academy of Arts & Sciences (the "School") are described below.

Reporting Entity

The School is a special purpose 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 School has no component units for which it is considered to be financially accountable.

Entity-wide and Fund Financial Statements

The entity-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the School. 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 the governmental fund and fiduciary fund, even though the latter are excluded from the entity-wide financial statements.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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

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, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Charges to the school districts, 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 School receives cash.

The School reports the following major governmental fund:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Additionally, the School reports the following fund type:

- **Student Activities Agency Fund** (a fiduciary fund). It accounts for assets held on behalf of student groups.

Amounts 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. Likewise, general revenues include charges to school districts.

Encumbrance Accounting

Encumbrance accounting is employed by the School's governmental fund. Encumbrances (i.e. purchase orders and contracts) outstanding at year end are reported as assigned fund balance and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. At June 30, 2014, the School had no outstanding encumbrances.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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

Receivables

The School considers all accounts receivable at year end to be collectible; therefore, no allowance for doubtful accounts has been recorded.

Capital Assets

Capital assets, which include leasehold improvements and furniture and equipment, are reported in the entity-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$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 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.

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:

Leasehold improvements	5 - 10 years
Furniture and equipment	3 - 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 fund 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 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. 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.

Earned unused sick leave may be transferred to another state agency if the employee remains a state employee or is later rehired as a state employee. Sick time does not accrue while an employee is on leave of absence, unless otherwise required by law.

The School's compensated absences liability was \$77,802 at June 30, 2014.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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

Fund Equity

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

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

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

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

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

Unassigned – all other spendable amounts.

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

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Any remaining portions of net position are reflected as unrestricted. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and then unrestricted resources as they are needed.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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

Income Tax Status

No provision has been made for income taxes since the School qualifies as a tax-exempt organization under the Internal Revenue Code, Section 501(c)(3), and its activities do not result in any income tax liability. In accordance with the section of FASB ASC regarding accounting for uncertainty in income taxes, the School is required to recognize the financial statement effects of a tax position if it is more likely than not that the position will not be sustained upon examination. The School has no uncertain tax positions that qualify for recognition in the financial statements.

Generally accepted accounting principles prescribe rules for the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in the School's tax returns. Management has determined that the School does not have any uncertain tax positions or associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the School's tax returns will not be challenged by the taxing authorities and that the School will not be subject to additional tax, penalties, and interest as a result of such challenge. Income tax returns of the School for 2011, 2012, and 2013 are subject to examination by tax authorities, generally for three years after they were filed.

Use of Estimates in the Preparation of Financial Statements

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2014, the School has a cash equivalent balance of \$1,593,309. Of that amount, \$1,494,752 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

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

At June 30, 2014, the reported amount of the School's deposits not held with the State Treasurer's Office was \$98,557, and the bank balance was \$99,583. All of the balance was covered by federal depository insurance.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS

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

	Balances 7/01/13	Increases	Decreases	Balances 6/30/14
Governmental Activities:				
Capital assets not being depreciated:				
Construction-in-progress	\$ 20,263	\$ -	\$ 20,263	\$ -
Total capital assets not being depreciated	20,263	-	20,263	-
Capital assets being depreciated:				
Leasehold improvements	-	81,381	-	81,381
Furniture and equipment	112,866	458,439	-	571,305
Total capital assets being depreciated	112,866	539,820	-	652,686
Accumulated depreciation	(105,095)	(56,952)	-	(162,047)
Total capital assets being depreciated, net	7,771	482,868	-	490,639
Governmental Activities, Net	\$ 28,034	\$ 482,868	\$ (20,263)	\$ 490,639

Depreciation expense was charged to the following activities:

Governmental activities:	
Instructional activities	\$ 51,702
Operation and maintenance of facilities	5,250
	<u>\$ 56,952</u>

NOTE 4 LONG-TERM DEBT

Capital Lease Obligation

In July 2013, Sussex Academy of Arts & Sciences entered into a master lease obligation to purchase a school bus. The lease qualified as a capital lease. The bus is being amortized over its estimated useful life. Amortization of the bus under the capital lease is included in depreciation expense. The cost of the bus was \$94,658, and accumulated depreciation of the bus at June 30, 2014 totaled \$9,466.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT (cont'd)

The aggregate future minimum lease payments under the capital lease obligation as of June 30, 2014 are as follows:

<u>Years Ending June 30,</u>	
2015	\$ 17,263
2016	17,263
2017	17,263
2018	17,263
2019	17,263
Total future minimum payments	<u>86,315</u>
Less amount representing interest	<u>8,920</u>
Present value of future minimum payments	<u>\$ 77,395</u>

The first payment was due at the signing of the lease and was principal only.

A schedule of changes in long-term liabilities is as follows:

	Outstanding 7/01/13	Additions	Retirements	Outstanding 6/30/14	Amounts Due within One Year
Governmental activities:					
Capital lease	\$ -	\$ 94,658	\$ 17,263	\$ 77,395	\$ 14,361
Compensated absences	<u>73,137</u>	<u>4,665</u>	<u>-</u>	<u>77,802</u>	<u>-</u>
Total Governmental Activities	<u>\$ 73,137</u>	<u>\$ 99,323</u>	<u>\$ 17,263</u>	<u>\$ 155,197</u>	<u>\$ 14,361</u>

NOTE 5 FUND BALANCE

As of June 30, 2014, fund balance is composed of the following:

	<u>General Fund</u>
Restricted:	
Donor	\$ 1,651
Unassigned	<u>1,237,868</u>
Total Fund Balance	<u>\$ 1,239,519</u>

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN

Plan Description

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

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

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

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

Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's contribution to the State PERS for the years ended June 30, 2012, 2013, and 2014 was \$215,013, \$249,645, and \$407,093, respectively.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 7 LEASES

The School is involved in the following operating leasing arrangements:

School Facility

The School entered into a leasing arrangement for a real property with the Sussex Preparatory Academy Foundation, Inc. (a related 501(c)(3) nonprofit corporation) for a term of 40 years. The lease commenced on June 11, 2013 and expires in June 2053. The lease calls for three annual lease payments of \$218,750 (on June 11 of each year) through June 11, 2015. Thereafter, monthly payments of \$25,125 are due. Future minimum rental payments are as follows:

Years Ending June 30,

2015	\$ 218,750
2016	301,500
2017	301,500
2018	301,500
2019	301,500
2020 - 2024	1,507,500
2025 - 2029	1,507,500
2030 - 2034	1,507,500
2035 - 2039	1,507,500
2040 - 2044	1,507,500
2045 - 2049	1,507,500
2050 - 2053	1,206,000
	<u>\$ 11,675,750</u>

Total rental costs incurred for the year ended June 30, 2014 were \$218,750.

Copier Equipment

In July 2013, the School entered into two operating leases for certain copier equipment. The operating leases are for a term of five years, expiring June 2018. The leases call for monthly payments of \$895. Future minimum lease payments are as follows:

Years Ending June 30,

2015	\$ 10,740
2016	10,740
2017	10,740
2018	10,740
	<u>\$ 42,960</u>

Total lease payments for the year ended June 30, 2014 totaled \$10,740.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 8 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE 9 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 School does not anticipate losses from these transactions.

Grants

The School receives significant financial assistance from federal and state 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 and federal agencies. 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 10 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	\$	5,559
Transportation	\$	68,902
Supplies and materials	\$	8,223
Capital outlay - equipment	\$	7,076
Debt service - principal	\$	17,263

The excess expenditures were covered by the School's use of available fund balance.

NOTE 11 PRIOR PERIOD ADJUSTMENT

The School has restated its beginning net position of the governmental activities and general fund fund balance based on a classification error detected. The School had included a cash account in the agency fund that belonged in the general fund. The net result of this change is an increase of \$38,788 in the beginning net position and general fund balance of the School.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 12 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through October 14, 2014, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SUSSEX ACADEMY OF ARTS & SCIENCES
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 720,617	\$ 746,186	\$ 746,186	\$ -
State sources	2,995,908	3,153,099	3,155,055	1,956
Federal sources	85,000	149,230	131,392	(17,838)
Food service revenue	42,000	35,000	21,145	(13,855)
Earnings on cash and cash investments	10,500	5,750	7,164	1,414
Facilities rental	14,277	14,277	16,402	2,125
Contributions	157,480	157,480	157,480	-
Miscellaneous revenue	98,243	118,243	22,167	(96,076)
TOTAL REVENUES	<u>4,124,025</u>	<u>4,379,265</u>	<u>4,256,991</u>	<u>(122,274)</u>
EXPENDITURES				
Current:				
Salaries	1,997,727	2,074,624	2,080,183	(5,559)
Employment costs	892,553	880,543	866,572	13,971
Travel	13,000	12,400	8,527	3,873
Contractual services	133,950	130,450	124,526	5,924
Communications	11,585	7,900	7,237	663
Public utilities service	141,880	142,630	134,132	8,498
Insurance	37,150	50,250	46,714	3,536
Transportation	294,150	304,790	373,692	(68,902)
Land, buildings, and facilities	255,750	254,000	219,978	34,022
Repairs and maintenance	34,500	133,000	106,819	26,181
Supplies and materials	148,000	229,000	237,223	(8,223)
Capital outlays:				
Equipment	458,749	351,750	358,826	(7,076)
Debt service:				
Principal	-	-	17,263	(17,263)
TOTAL EXPENDITURES	<u>4,418,994</u>	<u>4,571,337</u>	<u>4,581,692</u>	<u>(10,355)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(294,969)</u>	<u>(192,072)</u>	<u>(324,701)</u>	<u>(132,629)</u>
OTHER FINANCING SOURCES				
Refund of prior year expenditures	750	-	140	140
Capital lease	-	-	94,658	94,658
TOTAL OTHER FINANCING SOURCES	<u>750</u>	<u>-</u>	<u>94,798</u>	<u>94,798</u>
NET CHANGE IN FUND BALANCE	<u>(294,219)</u>	<u>(192,072)</u>	<u>(229,903)</u>	<u>(37,831)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>1,469,422</u>	<u>1,469,422</u>	<u>1,469,422</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,175,203</u>	<u>\$ 1,277,350</u>	<u>\$ 1,239,519</u>	<u>\$ (37,831)</u>

SUPPLEMENTARY INFORMATION

SUSSEX ACADEMY OF ARTS & SCIENCES
COMBINING BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 3014

	State Allocation	Local Funding	Federal Funding	Totals
ASSETS				
Cash and cash equivalents	\$ 1	\$ 1,551,897	\$ -	\$ 1,551,898
Accounts receivable	-	2,125	-	2,125
TOTAL ASSETS	<u>\$ 1</u>	<u>\$ 1,554,022</u>	<u>\$ -</u>	<u>\$ 1,554,023</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable	\$ -	\$ 18,566	\$ -	\$ 18,566
Accrued salaries	-	295,938	-	295,938
TOTAL LIABILITIES	<u>-</u>	<u>314,504</u>	<u>-</u>	<u>314,504</u>
FUND BALANCE:				
Restricted	-	1,651	-	1,651
Unassigned	1	1,237,867	-	1,237,868
TOTAL FUND BALANCE	<u>1</u>	<u>1,239,518</u>	<u>-</u>	<u>1,239,519</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1</u>	<u>\$ 1,554,022</u>	<u>\$ -</u>	<u>\$ 1,554,023</u>

SUSSEX ACADEMY OF ARTS & SCIENCES
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 3014

	State Allocation	Local Funding	Federal Funding	Totals
REVENUES				
Charges to school districts	\$ -	\$ 746,186	\$ -	\$ 746,186
State sources	3,155,055	-	-	3,155,055
Federal sources	-	-	116,076	116,076
Food service revenue	-	21,145	15,316	36,461
Earnings on cash and cash investments	-	7,164	-	7,164
Facilities rental	-	16,402	-	16,402
Contributions	-	157,480	-	157,480
Miscellaneous revenue	-	22,167	-	22,167
TOTAL REVENUES	<u>3,155,055</u>	<u>970,544</u>	<u>131,392</u>	<u>4,256,991</u>
EXPENDITURES				
Current:				
Instructional services	2,283,836	892,496	108,598	3,284,930
Operation and maintenance of facilities	416,048	91,595	-	507,643
Transportation	283,952	89,740	-	373,692
Food services	8,063	15,959	15,316	39,338
Capital outlays	99,576	251,772	7,478	358,826
Debt service - principal	-	17,263	-	17,263
TOTAL EXPENDITURES	<u>3,091,475</u>	<u>1,358,825</u>	<u>131,392</u>	<u>4,581,692</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>63,580</u>	<u>(388,281)</u>	<u>-</u>	<u>(324,701)</u>
OTHER FINANCING SOURCES				
Refund of prior year expenditures	-	140	-	140
Capital lease	-	94,658	-	94,658
Transfer in (out)	(63,581)	63,581	-	-
TOTAL OTHER FINANCING SOURCES	<u>(63,581)</u>	<u>158,379</u>	<u>-</u>	<u>94,798</u>
NET CHANGE IN FUND BALANCES	<u>(1)</u>	<u>(229,902)</u>	<u>-</u>	<u>(229,903)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>2</u>	<u>1,469,420</u>	<u>-</u>	<u>1,469,422</u>
FUND BALANCES, END OF YEAR	<u>\$ 1</u>	<u>\$ 1,239,518</u>	<u>\$ -</u>	<u>\$ 1,239,519</u>

SUSSEX ACADEMY OF ARTS & SCIENCES
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

EXPENDITURES

Current:

Salaries	\$ 2,080,183
Employment costs	866,572
Travel	8,527
Contractual services	124,526
Communications	7,237
Public utilities service	134,132
Insurance	46,714
Transportation	373,692
Land, buildings, and facilities	219,978
Repairs and maintenance	106,819
Supplies and materials	237,223
Capital outlays:	
Equipment	358,826
Debt service:	
Principal	<u>17,263</u>

TOTAL EXPENDITURES

\$ 4,581,692

SUSSEX ACADEMY OF ARTS & SCIENCES
BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 720,617	\$ 746,186	\$ 746,186	\$ -
State sources	2,995,908	3,153,099	3,155,055	1,956
Federal sources	85,000	149,230	116,076	(33,154)
Food service revenue	42,000	35,000	36,461	1,461
Earnings on cash and cash investments	10,500	5,750	7,164	1,414
Facilities rental	14,277	14,277	14,277	-
Contributions	157,480	157,480	157,480	-
Miscellaneous revenue	98,243	118,243	22,167	(96,076)
TOTAL REVENUES	<u>4,124,025</u>	<u>4,379,265</u>	<u>4,254,866</u>	<u>(124,399)</u>
EXPENDITURES				
Current:				
Salaries	1,997,727	2,074,624	2,042,458	32,166
Employment costs	892,553	880,543	866,572	13,971
Travel	13,000	12,400	7,487	4,913
Contractual services	133,950	130,450	128,306	2,144
Communications	11,585	7,900	7,237	663
Public utilities service	141,880	142,630	133,810	8,820
Insurance	37,150	50,250	46,714	3,536
Transportation	294,150	304,790	357,049	(52,259)
Land, buildings, and facilities	255,750	254,000	231,819	22,181
Repairs and maintenance	34,500	133,000	106,769	26,231
Supplies and materials	148,000	229,000	232,025	(3,025)
Capital outlays:				
Equipment	458,749	351,750	357,226	(5,476)
Debt service:				
Principal	-	-	17,263	(17,263)
TOTAL EXPENDITURES	<u>4,418,994</u>	<u>4,571,337</u>	<u>4,534,735</u>	<u>36,602</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(294,969)</u>	<u>(192,072)</u>	<u>(279,869)</u>	<u>(87,797)</u>
OTHER FINANCING SOURCES				
Refund of prior year expenditures	750	-	73,140	73,140
Capital lease	-	-	94,658	94,658
TOTAL OTHER FINANCING SOURCES	<u>750</u>	<u>-</u>	<u>167,798</u>	<u>167,798</u>
NET CHANGE IN FUND BALANCE	<u>(294,219)</u>	<u>(192,072)</u>	<u>(112,071)</u>	<u>80,001</u>
FUND BALANCE, BEGINNING OF YEAR	<u>1,681,231</u>	<u>1,681,231</u>	<u>1,681,231</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,387,012</u>	<u>\$ 1,489,159</u>	<u>\$ 1,569,160</u>	<u>\$ 80,001</u>

INDEPENDENT AUDITOR'S
REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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October 14, 2014

Board of Directors
Sussex Academy of Arts & Sciences
Georgetown, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the governmental fund, and the aggregate remaining fund information of Sussex Academy of Arts & Sciences, Georgetown, Delaware as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Sussex Academy of Arts & Sciences' (the "School") basic financial statements, and have issued our report thereon dated October 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sussex Academy of Arts & Sciences' 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Board of Directors
Sussex Academy of Arts & Sciences

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sussex Academy of Arts & Sciences' 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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