



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

FINANCIAL STATEMENTS

JUNE 30, 2015

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

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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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September 16, 2015

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 the 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, 2015, 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 polices 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.

Board of Directors
Sussex Academy of Arts & Sciences

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 the Sussex Academy of Arts & Sciences as of June 30, 2015, 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 1 to the financial statements, the Sussex Academy of Arts & Sciences has adopted the requirements of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." These statements modify the accounting for the School's pensions. Our opinion is not modified with respect to this matter.

Report of Summarized Comparative Information

We have previously audited the Sussex Academy of Arts & Sciences' 2014 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the governmental fund, and the aggregate remaining fund information in our report dated October 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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, the budgetary comparison information on page 33, and the schedule of proportionate share of net pension liability and contributions on page 34 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 the 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 fund - 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 fund - 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, 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 fund - 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 September 16, 2015 on our consideration of the 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 the 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, 2015**

Our discussion and analysis of the School's financial performance provides an overview of the financial activities for the year ended June 30, 2015. 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 \$517,113 or 63.88 percent. Program revenues accounted for \$583,917 or 10.44 percent of total revenues, and the general revenues accounted for \$5,009,499 million or 89.56 percent of total revenues. Also, the general fund reported a positive fund balance of \$1,274,906.

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 Fund

Most of the School's activities are reported in the governmental fund, which focuses on how money flows into and out of this fund and the balance left at year-end available for spending in future periods. This fund is reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2015**

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 \$1,326,589 at the close of the fiscal year. The largest portion of the School's total assets is cash and equivalents (66.82 percent); other assets (5.63 percent), and capital assets net of depreciation and construction-in-progress (27.55 percent) make up the remaining assets. 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 2015 to 2014 follows:

	Table 1 Net Position	
	Governmental Activities	
	2015	2014
Assets		
Current assets	\$ 1,972,680	\$ 1,554,023
Noncurrent assets	750,403	490,639
Total Assets	<u>2,723,083</u>	<u>2,044,662</u>
Deferred Outflows of Resources		
Deferred pension contributions	395,488	188,374
Liabilities		
Current liabilities	712,673	328,865
Noncurrent liabilities	481,701	1,094,695
Total Liabilities	<u>1,194,374</u>	<u>1,423,560</u>
Deferred Inflows of Resources		
Deferred pension contributions	597,608	-
Net Position		
Net investment in capital assets	687,369	413,244
Unrestricted	639,220	396,232
Total Net Position	<u>\$ 1,326,589</u>	<u>\$ 809,476</u>

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2015**

The School may use the balance of unrestricted net position of \$639,220, 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	
	2015	2014
Revenues:		
Charges to school districts	\$ 920,442	\$ 746,186
State aid not restricted to specific purposes	3,988,332	3,155,055
Earnings on cash and equivalents	8,586	7,164
Miscellaneous revenue	92,139	22,307
Total general revenues	<u>5,009,499</u>	<u>3,930,712</u>
Program revenues:		
Operating grants and contributions	495,798	131,392
Capital grants and contributions	60,455	157,480
Facilities rental	8,710	16,402
School cafeteria fees	18,954	21,145
Total Revenues	<u>5,593,416</u>	<u>4,257,131</u>
Expenses:		
Instructional services	4,173,954	3,306,852
Supporting services:		
Operation and maintenance of facilities	497,487	481,265
Transportation	370,089	279,034
School food service	31,871	39,338
Interest on capital lease	2,902	-
Total Expenses	<u>5,076,303</u>	<u>4,106,489</u>
Change in Net Position	<u>\$ 517,113</u>	<u>\$ 150,642</u>

Governmental Activities

The net position of the School's governmental activities increased by \$517,113, and unrestricted net position reflects a positive balance of \$639,220. The increase in the net position for both the current and prior years is primarily the result of the School's increases in the level of funding and also an increase in operating grants and contributions to assist the School with its operations.

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2015**

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 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			
	2015		2014	
	Total Cost	Net Cost (Revenue)	Total Cost	Net Cost (Revenue)
Governmental Activities				
Instructional services	\$ 4,173,954	\$ 3,632,050	\$ 3,306,852	\$ 3,033,296
Support services:				
Operation and maintenance of facilities	497,487	488,777	481,265	464,863
Transportation	370,089	370,089	279,034	279,034
School food services	31,871	(1,432)	39,338	2,877
Interest on capital lease	2,902	2,902	-	-
Total Expenses	<u>\$ 5,076,303</u>	<u>\$ 4,492,386</u>	<u>\$ 4,106,489</u>	<u>\$ 3,780,070</u>

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 \$1,274,906, which is an increase from the prior year's amount of \$1,239,519. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015.

	2015	2014	Increase
General Fund	<u>\$ 1,274,906</u>	<u>\$ 1,239,519</u>	<u>\$ 35,387</u>

General Fund

The increase in the School's fund balance of the general fund is due to increases in the level of funding from charges to school districts, state sources, federal sources, contributions and miscellaneous revenues. Expenditures increased as well, however, they did not increase at the same level as the increase in revenues. Instructional expenditures increased primarily due to the School hiring additional teachers and staff to accommodate the School's growth as a result of adding the 10th grade in fiscal year 2015. In addition, the School purchased additional instructional supplies, computers, and other materials in order to support the addition of another grade.

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2015**

The tables that follow will assist the reader in evaluating the financial activities as compared to the prior year.

	Amounts		Percentage (%) Change
	2015	2014	
Revenues			
Charges to school districts	\$ 920,442	\$ 746,186	23.35%
State sources	3,988,332	3,155,055	26.41%
Federal sources	278,198	131,392	111.73%
Earnings on cash and equivalents	8,586	7,164	19.85%
School food service fees	18,954	21,145	-10.36%
Facilities rental	8,710	16,402	-46.90%
Contributions	289,052	157,480	83.55%
Miscellaneous revenue	80,900	22,167	264.96%
Total Revenues	\$ 5,593,174	\$ 4,256,991	31.39%

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
	2015	2014	
Expenditures by Object			
Current:			
Instruction services	\$ 4,351,050	\$ 3,284,930	32.45%
Supporting services:			
Operation and maintenance of facilities	510,243	507,643	0.51%
Transportation	363,191	373,692	-2.81%
School food services	31,871	39,338	-18.98%
Capital outlay	284,411	358,826	-20.74%
Debt service	17,263	17,263	0.00%
Total Expenditures by Object	\$ 5,558,029	\$ 4,581,692	21.31%

GENERAL FUND BUDGET INFORMATION

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

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2015**

CAPITAL ASSETS

The School has \$750,403 invested in capital assets, net of depreciation. During the current year, the School made capital acquisitions of \$354,125 and incurred depreciation expense of \$94,361. Due to the School relocating to a new building and continuing to add additional grades, the School purchased significant capital assets.

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

- Purchase of computer equipment totaling \$81,266.
- Purchase of school furniture totaling \$70,524.
- Purchase of a portable wheelchair lift totaling \$28,600.
- Purchase of a tractor totaling \$29,973.

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

DEBT OBLIGATIONS

In fiscal year 2014, 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, 2015 totaled \$63,034. 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
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

	Governmental Activities	
	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,819,439	\$ 1,551,898
Accounts receivable:		
Sussex Academy Foundation	150,000	-
Other	3,241	2,125
Total Current Assets	1,972,680	1,554,023
NONCURRENT ASSETS:		
Construction-in-progress	19,837	-
Depreciable capital assets, net	730,566	490,639
Total Noncurrent Assets	750,403	490,639
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions	395,488	188,374
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 3,118,571	\$ 2,233,036
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 93,212	\$ 18,566
Accrued salaries	604,562	295,938
Capital lease	14,899	14,361
Total Current Liabilities	712,673	328,865
NONCURRENT LIABILITIES:		
Capital lease	48,135	63,034
Compensated absences	57,518	77,802
Net pension liability	376,048	953,859
Total Noncurrent Liabilities	481,701	1,094,695
TOTAL LIABILITIES	1,194,374	1,423,560
DEFERRED INFLOWS OF RESOURCES		
Deferred pension contributions	597,608	-
NET POSITION		
Net investment in capital assets	687,369	413,244
Unassigned	639,220	396,232
TOTAL NET POSITION	1,326,589	809,476
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 3,118,571	\$ 2,233,036

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

**SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2015

(With Summarized Comparative Data for the Year Ended June 30, 2014)

GOVERNMENTAL ACTIVITIES	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	
	2015	2014	2015		2014	
Instructional services	\$ (4,173,954)	\$ -	\$ 481,449	\$ 60,455	\$ (3,632,050)	\$ (3,033,296)
Support services:						
Operation and maintenance of facilities	(497,487)	8,710	-	-	(488,777)	(464,863)
Transportation	(370,089)	-	-	-	(370,089)	(279,034)
School food services	(31,871)	18,954	14,349	-	1,432	(2,877)
Interest on capital lease	(2,902)	-	-	-	(2,902)	-
TOTAL GOVERNMENTAL ACTIVITIES	\$ (5,076,303)	\$ 27,664	\$ 495,798	\$ 60,455	(4,492,386)	(3,780,070)
GENERAL REVENUES						
Charges to school districts					920,442	746,186
State aid not restricted to specific purposes					3,988,332	3,155,055
Earnings on cash and investments					8,586	7,164
Other local sources					92,139	22,307
TOTAL GENERAL REVENUES					5,009,499	3,930,712
CHANGE IN NET POSITION					517,113	150,642
NET POSITION, BEGINNING OF YEAR, RESTATED					809,476	658,834
NET POSITION, END OF YEAR					\$ 1,326,589	\$ 809,476

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

**SUSSEX ACADEMY OF ARTS & SCIENCES
BALANCE SHEETS - GOVERNMENTAL FUND
JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 1,819,439	\$ 1,551,898
Accounts receivable:		
Sussex Academy Foundation	150,000	-
Other	3,241	2,125
TOTAL ASSETS	<u>\$ 1,972,680</u>	<u>\$ 1,554,023</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$ 93,212	\$ 18,566
Accrued salaries	604,562	295,938
TOTAL LIABILITIES	<u>697,774</u>	<u>314,504</u>
FUND BALANCE:		
Assigned	2,784	1,651
Unassigned	1,272,122	1,237,868
TOTAL FUND BALANCE	<u>1,274,906</u>	<u>1,239,519</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,972,680</u>	<u>\$ 1,554,023</u>

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

**SUSSEX ACADEMY OF ARTS & SCIENCES
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND
TO STATEMENT OF NET POSITION
JUNE 30, 2015**

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 1,274,906

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. 750,403

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	\$ (63,034)	
Compensated absences	(57,518)	
Net pension liability	<u>(376,048)</u>	(496,600)

Deferred inflows and outflows related to the School's net pension liability are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined proportion of the School's amount of the total pension liability, and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows - pension contributions	395,488	
Deferred inflows	<u>(597,608)</u>	<u>(202,120)</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,326,589

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

**SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
REVENUES		
Charges to school districts	\$ 920,442	\$ 746,186
State sources	3,988,332	3,155,055
Federal sources	278,198	131,392
Earnings on cash and cash equivalents	8,586	7,164
Food service revenue	18,954	21,145
Facilities rental	8,710	16,402
Contributions	289,052	157,480
Miscellaneous revenue	80,900	22,167
TOTAL REVENUES	<u>5,593,174</u>	<u>4,256,991</u>
EXPENDITURES		
Current:		
Instructional services	4,351,050	3,284,930
Operation and maintenance of facilities	510,243	507,643
Transportation	363,191	373,692
Food services	31,871	39,338
Capital outlays	284,411	358,826
Debt service:		
Principal	14,361	17,263
Interest	2,902	-
TOTAL EXPENDITURES	<u>5,558,029</u>	<u>4,581,692</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>35,145</u>	<u>(324,701)</u>
OTHER FINANCING SOURCES		
Refund of prior year expenditures	242	140
Capital lease	-	94,658
TOTAL OTHER FINANCING SOURCES	<u>242</u>	<u>94,798</u>
NET CHANGE IN FUND BALANCE	35,387	(229,903)
FUND BALANCE, BEGINNING OF YEAR	<u>1,239,519</u>	<u>1,469,422</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,274,906</u>	<u>\$ 1,239,519</u>

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

**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, 2015**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ 35,387

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 capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 354,125	
Depreciation expense	<u>(94,361)</u>	259,764

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.

Payment of capital lease	<u>14,361</u>	14,361
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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 fund. In addition, the reimbursement related to these expenses are not classified as current resources, and are therefore not reported as revenues in the governmental fund.

Compensated absences	<u>20,284</u>	20,284
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Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the organization's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists.

	<u>187,317</u>	
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CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$ 517,113</u></u>
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The accompanying notes are an integral part of these financial statements.

**SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENTS OF FIDUCIARY NET POSITION - AGENCY FUND
JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	<u>\$ 49,637</u>	<u>\$ 41,411</u>
LIABILITIES		
Due to student groups	<u>\$ 49,367</u>	<u>\$ 41,411</u>
NET POSITION		
Unrestricted	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 49,367</u>	<u>\$ 41,411</u>

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

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

The 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 the 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 the 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 reappropriated and honored during the subsequent year. At June 30, 2015, the School had encumbrances outstanding in the amount of \$2,784.

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

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The School reports deferred pension contributions resulting from pension contributions subsequent to the measurement date of the net pension liability and certain other items which represent differences related to changes in the net pension liability which will be amortized over future periods. In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents a source of net position that applies to future periods. The School reports certain items which represent differences related to changes in the net pension liability which will be amortized over future periods.

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.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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

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 \$57,518 at June 30, 2015.

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 the School. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

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

Unassigned – all other spendable amounts.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

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 2012, 2013, and 2014 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.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the School's June 30, 2014 basic financial statements to be comparative with the current presentation.

Implementation of GASB Statements

During the year ended June 30, 2015, the School implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, with the objective of improving the accounting and financial reporting of state and local governments for pensions. It requires that state and local governments recognize and record the actuarially determined net pension liability, or, for multi-employer cost sharing plans, the entity's share of the net pension liability, in the entity's financial statements.

GASB Statement No. 71 amends GASB Statement No. 68 and addresses an issue regarding application of the transition provisions in the year of implementation. It requires that in the year of implementation, the state or local government recognize a beginning deferred outflow of contributions for its pension contributions made after the date of measurement.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2015, the School has a cash equivalent balance of \$1,869,076. Of that amount, \$1,745,610 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, 2015, the reported amount of the School's deposits not held with the State Treasurer's Office was \$123,466, and the bank balance was \$129,045. 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, 2015 is as follows:

	<u>Balances 7/01/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances 6/30/15</u>
Governmental Activities:				
Capital assets not being depreciated:				
Construction-in-progress	\$ -	\$ 19,837	\$ -	\$ 19,837
Total capital assets not being depreciated	<u>-</u>	<u>19,837</u>	<u>-</u>	<u>19,837</u>
Capital assets being depreciated:				
Leasehold improvements	81,381	8,230	-	89,611
Furniture and equipment	571,305	326,058	-	897,363
Total capital assets being depreciated	652,686	334,288	-	986,974
Accumulated depreciation	<u>(162,047)</u>	<u>(94,361)</u>	<u>-</u>	<u>(256,408)</u>
Total capital assets being depreciated, net	<u>490,639</u>	<u>239,927</u>	<u>-</u>	<u>730,566</u>
Governmental Activities, Net	<u>\$ 490,639</u>	<u>\$ 259,764</u>	<u>\$ -</u>	<u>\$ 750,403</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
Instructional activities	\$ 77,772
Operation and maintenance of facilities	9,691
Transportation	<u>6,898</u>
	<u>\$ 94,361</u>

NOTE 4 LONG-TERM DEBT

Capital Lease Obligation

In July 2013, the School 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, 2015 totaled \$18,932.

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, 2015 are as follows:

<u>Years Ending June 30,</u>	
2016	\$ 17,263
2017	17,263
2018	17,263
2019	17,263
Total future minimum payments	<u>69,052</u>
Less amount representing interest	<u>6,018</u>
Present value of future minimum payments	<u>\$ 63,034</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 7/01/14	Additions	Retirements	Outstanding 6/30/15	Amounts Due within One Year
Governmental activities:					
Capital lease	\$ 77,395	\$ -	\$ 14,361	\$ 63,034	\$ 14,899
Compensated absences	77,802	-	20,284	57,518	-
Total Governmental Activities	<u>\$ 155,197</u>	<u>\$ -</u>	<u>\$ 34,645</u>	<u>\$ 120,552</u>	<u>\$ 14,499</u>

NOTE 5 FUND BALANCE

As of June 30, 2015, fund balance is composed of the following:

	General Fund
Assigned:	
Encumbrances	\$ 2,784
Unassigned	<u>1,272,122</u>
Total Fund Balance	<u>\$ 1,274,906</u>

NOTE 6 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan (the "Plan"), which is a cost-sharing, multiple-employer defined benefit public employees' retirement system (the "State PERS") defined by the Delaware Code.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

The State of Delaware General Assembly is responsible for setting benefits and contributions, and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees (the "Board").

The following are brief descriptions of the Plan in effect as of June 30, 2014. For a more complete description, please refer to the Delaware Employees' Pension Plan Comprehensive Annual Financial Report. Separately issued financial statements for the Plan 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; by calling 1-800-722-7300; or by visiting the PERS website at www.delawarepensions.com.

Plan Description and Eligibility

The State Employees' Pension Plan covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

There are two tiers within this plan: 1) employees hired prior to January 1, 2012, and 2) employees hired on or after January 1, 2012.

Benefits Provided

Service Benefits

Final average monthly compensation (employees hired on or after January 1, 2012 may not include overtime in pension compensation) multiplied by 2.0 percent and multiplied by years of credited service prior to January 1, 1997, plus final average monthly compensation multiplied by 1.85 percent and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three periods of twelve consecutive months of compensation.

Vesting

Employees hired before January 1, 2012 vest in the plan after five years of credited service. Employees hired on or after January 1, 2012 vest in the plan after ten years of credited service.

Retirement

Employees hired before January 1, 2012 may retire at age 62 with five years of credited service; at age 60 with 15 years of credited service; or after 30 years of credited service at any age. Employees hired on or after January 1, 2012 may retire at age 65 with at least 10 years of credited service; at age 60 with 20 years of credited service; or after 30 years of credited service at any age.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Disability Benefits

Disability benefits for those employees hired before January 1, 2012 are offered using the same calculations as the Service Benefits described above. Employees in this program must have five years of credited service. In lieu of disability pension benefits, over 90 percent of the members of this plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Employees hired on or after January 1, 2012 are also included in the Disability Insurance Program.

Survivor and Burial Benefits

In the event of the death of a member of the Plan, the eligible survivor receives 50 percent of the benefits received under the pension (or 75 percent with a three percent reduction of the benefit). If the employee is an active member of the Plan with at least five years of credited service, the eligible survivor receives 75 percent of the benefit the active employee would have received at age 62.

Burial benefits are established at \$7,000 per plan member.

Contributions

Member Contributions

Employees hired before January 1, 2012 contribute three percent of earnings in excess of \$6,000. Employees hired on or after January 1, 2012 contribute five percent of earnings in excess of \$6,000.

Employer Contributions

Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2015, the rate of the employer contribution was 9.56 percent of covered payroll. The School's contribution to PERS for the years ended June 30, 2015, 2014, and 2013 was \$260,577, \$188,374, and \$115,518, respectively.

PRI Contribution

All reporting units participating in the State PERS make contributions to a PRI fund which accumulates resources to fund ad hoc post-retirement increases granted by the General Assembly. The increases are funded over a five-year period from the PRI fund. The allocation of the contribution from the PRI fund to the Pension Trust is a reduction of the net pension liability of each participating employer.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2015, the School reported a liability of \$376,048 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2013 to June 30, 2014. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School's proportion was 0.1021 percent, which was an increase of 0.014 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School recognized a net negative pension expense of \$187,317. At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 597,608
Changes in proportions	126,752	-
Difference between employer contributions and proportionate share of total contributions	8,159	-
Contributions subsequent to the date of measurement	<u>260,577</u>	<u>-</u>
	<u>\$ 395,488</u>	<u>\$ 597,608</u>

An amount of \$260,577 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date (June 30, 2014) and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

Year Ending June 30,

2016	\$ 122,420
2017	122,420
2018	122,420
2019	122,420
2020	<u>(26,983)</u>
	<u>\$ 462,697</u>

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Actuarial Assumptions

The total pension liability as of the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. These actuarial valuations used the following actuarial assumptions, applied to all periods:

- Investment return – 7.2 percent, including inflation of 3.0 percent
- Salary increases – 3.5 percent to 11.5 percent, including inflation of 3.0 percent
- Cost-of-living adjustments – ad hoc

The total pension liabilities are measured based on the assumptions pertaining to interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the actual experience deviates, the larger the impact on future financial statements.

Mortality rates were based on the Sex Distinct RP-2000 combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments ("ad hoc COLAs"), as they are not substantively automatic. The primary considerations relevant to making this determination include the historical patterns of granting the changes and the consistency in the amounts of the changes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	5.7%
International equity	5.7%
Fixed income	2.0%
Alternative investments	7.8%
Cash and equivalents	0.0%

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Due to the fact that Plan assets are commingled with other State funds for investment purposes, a target allocation of each asset class specific to the Plan is not available. However, assets of the Plan may be used only for the payment of benefits to the members of the Plan.

Discount Rate

The discount used to measure the total pension liability was 7.2 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates determined by the Board of Pension Trustees, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.2 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.2 percent), or one percentage point higher (8.2 percent) than the current rate.

	1% Decrease 6.2%	Current Rate Discount Rate 7.2%	1% Increase 8.2%
School's proportionate share of the net pension liability	\$ 1,408,934	\$ 376,048	\$ (497,134)

Pension Plan Fiduciary Net Position

Detailed information about PERS' fiduciary net position is available in PERS Comprehensive Annual Financial Report, which can be found on the Plan's website at www.delawarepensions.com.

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:

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 7 LEASES (cont'd)

Years Ending June 30,

2016	\$ 218,750
2017	301,500
2018	301,500
2019	301,500
2020	301,500
2021 - 2025	1,507,500
2026 - 2030	1,507,500
2031 - 2035	1,507,500
2036 - 2040	1,507,500
2041 - 2045	1,507,500
2046 - 2050	1,507,500
2051 - 2054	<u>1,206,000</u>
	<u>\$11,675,750</u>

Total rental costs incurred for the year ended June 30, 2015 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,

2016	\$ 10,740
2017	10,740
2018	<u>10,740</u>
	<u>\$ 32,220</u>

Total lease payments for the year ended June 30, 2015 totaled \$10,740.

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.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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.

Capital Improvement Commitments

As of June 30, 2015, the School has capital projects in process for improvements to several classrooms. Construction commitments relating to this project were as follows:

	<u>Contract Amount</u>	<u>Completed to 06/30/2015</u>	<u>Commitments</u>
Security upgrades	\$ 21,740	\$ 13,240	\$ 8,500

In addition, the School has incurred costs in the amount of \$6,597 for other projects that were not under a formal construction commitment.

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	\$ 85,314
Employment costs	\$ 191,096
Repairs and maintenance	\$ 15,681
Supplies and materials	\$ 44,008
Capital outlays	\$ 42,661

The excess expenditures were covered by the School's revenues exceeding budgeted amounts.

NOTE 11 RESTATEMENT

The School has decreased its July 1, 2014 net position by \$765,485 due to the effects of implementing GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 11 RESTATEMENT (cont'd)

Measurement Date - An Amendment of GASB Statement No. 68." The School recorded a beginning deferred outflow for pension contributions of \$188,374 and a beginning net pension liability of \$953,859.

NOTE 12 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 16, 2015, 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, 2015**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 920,442	\$ 920,442	\$ 920,442	\$ -
State sources	3,983,298	3,983,298	3,988,332	5,034
Federal sources	229,707	229,707	278,198	48,491
Earnings on cash and cash investments	6,000	6,000	8,586	2,586
Food service revenue	31,000	31,000	18,954	(12,046)
Facilities rental	14,277	14,277	8,710	(5,567)
Contributions	-	-	289,052	289,052
Miscellaneous revenue	115,723	115,723	80,900	(34,823)
TOTAL REVENUES	<u>5,300,447</u>	<u>5,300,447</u>	<u>5,593,174</u>	<u>292,727</u>
EXPENDITURES				
Current:				
Salaries	2,476,718	2,476,718	2,562,032	(85,314)
Employment costs	1,071,348	1,071,348	1,262,444	(191,096)
Travel	5,750	5,750	4,453	1,297
Contractual services	143,320	143,320	115,093	28,227
Communications	13,000	13,000	9,834	3,166
Public utilities service	146,000	146,000	143,922	2,078
Insurance	48,000	48,000	45,407	2,593
Transportation	386,137	386,137	363,191	22,946
Land, buildings, and facilities	260,000	260,000	234,933	25,067
Repairs and maintenance	70,300	70,300	85,981	(15,681)
Supplies and materials	385,057	385,057	429,065	(44,008)
Capital outlays	241,750	241,750	284,411	(42,661)
Debt service:				
Principal	14,361	14,361	14,361	-
Interest	2,902	2,902	2,902	-
TOTAL EXPENDITURES	<u>5,264,643</u>	<u>5,264,643</u>	<u>5,558,029</u>	<u>(293,386)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>35,804</u>	<u>35,804</u>	<u>35,145</u>	<u>(659)</u>
OTHER FINANCING SOURCES				
Refund of prior year expenditures	-	-	242	242
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>242</u>	<u>242</u>
NET CHANGE IN FUND BALANCE	35,804	35,804	35,387	(417)
FUND BALANCE, BEGINNING OF YEAR	<u>1,239,519</u>	<u>1,239,519</u>	<u>1,239,519</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,275,323</u>	<u>\$ 1,275,323</u>	<u>\$ 1,274,906</u>	<u>\$ (417)</u>

**SUSSEX ACADEMY OF ARTS & SCIENCES
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION
 LIABILITY AND CONTRIBUTIONS**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>JUNE 30, 2014</u>
School's proportion of the net pension liability	0.1021%
School's proportion of the net pension liability - dollar value	\$ 376,048
School's covered employee payroll	\$ 1,970,439
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	19.08%
Plan fiduciary net position as a percentage of the total pension liability	95.80%
 <u>CONTRIBUTIONS</u>	
Contractually required contribution	\$ 178,583
Contributions in relation to the contractually required contribution	<u>188,374</u>
Contribution excess	<u><u>\$ (9,791)</u></u>
School's covered employee payroll	\$ 1,970,439
Contributions as a percentage of covered-employee payroll	9.56%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SUPPLEMENTARY INFORMATION

**SUSSEX ACADEMY OF ARTS & SCIENCES
COMBINING BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2015**

	State Allocation	Local Funding	Federal Funding	Totals
ASSETS				
Cash and cash equivalents	\$ 4,642	\$ 1,814,797	-	\$ 1,819,439
Accounts receivable	-	150,000	-	150,000
Sussex Academy Foundation	-	3,241	-	3,241
Other	-	-	-	-
TOTAL ASSETS	<u>\$ 4,642</u>	<u>\$ 1,968,038</u>	<u>\$ -</u>	<u>\$ 1,972,680</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable	-	\$ 93,212	-	\$ 93,212
Accrued salaries	-	604,562	-	604,562
TOTAL LIABILITIES	<u>-</u>	<u>697,774</u>	<u>-</u>	<u>697,774</u>
FUND BALANCE:				
Assigned	-	2,784	-	2,784
Unassigned	4,642	1,267,480	-	1,272,122
TOTAL FUND BALANCE	<u>4,642</u>	<u>1,270,264</u>	<u>-</u>	<u>1,274,906</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,642</u>	<u>\$ 1,968,038</u>	<u>\$ -</u>	<u>\$ 1,972,680</u>

**SUSSEX ACADEMY OF ARTS & SCIENCES
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	State Allocation	Local Funding	Federal Funding	Totals
REVENUES				
Charges to school districts	\$ -	\$ 920,442	-	\$ 920,442
State sources	3,988,332	-	-	3,988,332
Federal sources	-	-	263,849	263,849
Earnings on cash and cash investments	-	8,586	-	8,586
Food service revenue	-	18,954	14,349	33,303
Facilities rental	-	8,710	-	8,710
Contributions	-	289,052	-	289,052
Miscellaneous revenue	-	80,900	-	80,900
TOTAL REVENUES	3,988,332	1,326,644	278,198	5,593,174
EXPENDITURES				
Current:				
Instructional services	2,942,186	1,145,015	263,849	4,351,050
Operation and maintenance of facilities	382,841	127,402	-	510,243
Transportation	340,763	22,428	-	363,191
Food services	-	17,522	14,349	31,871
Capital outlays	228,435	55,976	-	284,411
Debt service:				
Principal	14,361	-	-	14,361
Interest	2,902	-	-	2,902
TOTAL EXPENDITURES	3,911,488	1,368,343	278,198	5,558,029
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	76,844	(41,699)	-	35,145
OTHER FINANCING SOURCES				
Refund of prior year expenditures	-	242	-	242
Transfer in (out)	(72,203)	72,203	-	-
TOTAL OTHER FINANCING SOURCES	(72,203)	72,445	-	242
NET CHANGE IN FUND BALANCES	4,641	30,746	-	35,387
FUND BALANCES, BEGINNING OF YEAR	1	1,239,518	-	1,239,519
FUND BALANCES, END OF YEAR	\$ 4,642	\$ 1,270,264	\$ -	\$ 1,274,906

**SUSSEX ACADEMY OF ARTS & SCIENCES
 SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUND
 FOR THE YEAR ENDED JUNE 30, 2015**

EXPENDITURES	
Current:	
Salaries	\$ 2,562,032
Employment costs	1,262,444
Travel	4,453
Contractual services	115,093
Communications	9,834
Public utilities service	143,922
Insurance	45,407
Transportation	363,191
Land, buildings, and facilities	234,933
Repairs and maintenance	85,981
Supplies and materials	429,065
Capital outlays	284,411
Debt service:	
Principal	14,361
Interest	2,902
	<hr/>
TOTAL EXPENDITURES	<u>\$ 5,558,029</u>

SUSSEX ACADEMY OF ARTS & SCIENCES
BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2015

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 920,442	\$ 920,442	\$ 920,442	\$ -
State sources	3,983,298	3,983,298	3,988,332	5,034
Federal sources	229,707	229,707	276,414	46,707
Earnings on cash and cash investments	6,000	6,000	8,586	2,586
Food service revenue	31,000	31,000	18,954	(12,046)
Facilities rental	14,277	14,277	10,835	(3,442)
Contributions	-	-	137,595	137,595
Miscellaneous revenue	115,723	115,723	80,900	(34,823)
TOTAL REVENUES	<u>5,300,447</u>	<u>5,300,447</u>	<u>5,442,058</u>	<u>141,611</u>
EXPENDITURES				
Current:				
Salaries	2,476,718	2,476,718	2,452,309	24,409
Employment costs	1,071,348	1,071,348	1,063,543	7,805
Travel	5,750	5,750	5,494	256
Contractual services	143,320	143,320	116,751	26,569
Communications	13,000	13,000	9,834	3,166
Public utilities service	146,000	146,000	95,514	50,486
Insurance	48,000	48,000	45,407	2,593
Transportation	386,137	386,137	363,191	22,946
Land, buildings, and facilities	260,000	260,000	235,954	24,046
Repairs and maintenance	70,300	70,300	87,821	(17,521)
Supplies and materials	385,057	385,057	408,348	(23,291)
Capital outlays	241,750	241,750	273,330	(31,580)
Debt service:				
Principal	14,361	14,361	14,361	-
Interest	2,902	2,902	2,902	-
TOTAL EXPENDITURES	<u>5,264,643</u>	<u>5,264,643</u>	<u>5,174,759</u>	<u>89,884</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>35,804</u>	<u>35,804</u>	<u>267,299</u>	<u>231,495</u>
OTHER FINANCING SOURCES				
Refund of prior year expenditures	-	-	242	242
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>242</u>	<u>242</u>
NET CHANGE IN FUND BALANCE	35,804	35,804	267,541	231,737
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>\$ 1,717,035</u>	<u>\$ 1,717,035</u>	<u>\$ 1,948,772</u>	<u>\$ 231,737</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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September 16, 2015

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 *Government 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 the Sussex Academy of Arts & Sciences, Georgetown, Delaware, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Sussex Academy of Arts & Sciences' (the "School") basic financial statements, and have issued our report thereon dated September 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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