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**SUSSEX ACADEMY**  
**(A Component Unit of the State of Delaware)**  
**GEORGETOWN, DELAWARE**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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SUSSEX ACADEMY  
(A Component Unit of the State of Delaware)

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(A Component Unit of the State of Delaware)

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## INDEPENDENT AUDITOR'S REPORT

September 28, 2018

Board of Directors  
Sussex Academy  
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 ("the School"), Georgetown, Delaware, a component unit of the State of Delaware, as of and for the year ended June 30, 2018, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Directors  
Sussex Academy

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 as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of a Matter

As discussed in Note 1 to the financial statements, Sussex Academy has adopted the requirements of GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." This statement modifies the accounting for the School's other postemployment benefits. As a result, the beginning governmental activities net position has been restated. Our opinion is not modified with respect to this matter.

### Report of Summarized Comparative Information

We have previously audited Sussex Academy's 2017 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 September 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 - 11, budgetary comparison schedule - general fund, schedule of the School's proportionate share of the net pension liability, schedule of School pension contributions, schedule of the School's proportionate share of the net OPEB liability, and schedule of School OPEB contributions on pages 39 - 43 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 School's 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 ("the supplementary information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Barbacane, Thornton & Company LLP*

BARBACANE, THORNTON & COMPANY LLP

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SUSSEX ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED  
YEAR ENDED JUNE 30, 2018**

Our discussion and analysis of Sussex Academy's ("the School") financial performance provides an overview of the financial activities for the year ended June 30, 2018. 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 12.

**FINANCIAL HIGHLIGHTS**

The net position of the School decreased by \$611,871, or 5.41 percent. Program revenues accounted for \$564,048, or 6.74 percent of total revenues, and the general revenues accounted for \$7,800,352, or 93.26 percent of total revenues. Also, the general fund reported a positive fund balance of \$1,506,035.

The School implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The purpose of this statement is to improve transparency, consistency, and comparability of postemployment benefits other than pensions reported by state and local governments (e.g. charter schools and school districts). The implementation of GASB No. 75 has had an impact on the entity-wide statements. The School is now required to report its proportionate share of the net other postemployment benefits ("OPEB") liability. This portion of the unfunded OPEB liability significantly contributed to a total deficit in net position of \$11,924,515. The net OPEB liability reported in these financial statements at June 30, 2018 totals \$13,361,601. While the net OPEB liability is significant to the School's financial statements, it is a liability that the School has limited control over. This liability is anticipated to continue to increase in future years as medical costs increase. Reporting in the governmental fund is not affected by the implementation of this statement.

**USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This 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, deferred outflows, liabilities, and deferred inflows 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



**SUSSEX ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2018**

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 14. 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 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 Fund***

The School's fiduciary fund accounts for its student activities and, due to the fiduciary nature of the arrangement, assets held in this fund may be only used for student activities. All of the School's fiduciary activities are reported in a separate statement of fiduciary net position on page 18. 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, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$11,924,515 at the close of the fiscal year. The largest portion of the School's total assets is cash and equivalents (75.14 percent); other assets (0.19 percent) and capital assets net of depreciation (24.67 percent) make up the remaining assets. The School uses capital assets to provide services; consequently, capital assets are not available for future spending.

**SUSSEX ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2018**

A summarized comparative analysis for the fiscal year 2018 to 2017 follows:

<b>Table 1 Net Position</b>		
	Governmental Activities	
	2018	2017
<b>Assets</b>		
Current assets	\$ 2,624,310	\$ 2,340,530
Noncurrent assets	859,418	888,388
<b>Total Assets</b>	<u>3,483,728</u>	<u>3,228,918</u>
<b>Deferred Outflows of Resources</b>		
Deferred OPEB	1,594,773	383,939
Deferred pension	1,597,367	1,640,045
<b>Total Deferred Outflows of Resources</b>	<u>3,192,140</u>	<u>2,023,984</u>
<b>Liabilities</b>		
Current liabilities	1,118,275	866,579
Noncurrent liabilities	15,852,974	15,649,134
<b>Total Liabilities</b>	<u>16,971,249</u>	<u>16,515,713</u>
<b>Deferred Inflows of Resources</b>		
Deferred OPEB	1,586,323	-
Deferred pension	42,811	49,833
<b>Total Deferred Inflows of Resources</b>	<u>1,629,134</u>	<u>49,833</u>
<b>Net Position</b>		
Net investment in capital assets	859,418	855,711
Restricted	-	1,375
Unrestricted (deficit)	<u>(12,783,933)</u>	<u>(12,169,730)</u>
<b>Total Net Position (Deficit)</b>	<u>\$ (11,924,515)</u>	<u>\$ (11,312,644)</u>

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.

The implementation of GASB No. 75 has had an impact on the entity-wide statements. The School is now required to report its proportionate share of the net OPEB liability. This portion of the unfunded OPEB liability resulted in a total deficit in net position of \$11,924,515. The net OPEB liability reported in these financial statements at June 30, 2018 totals \$13,361,601. While the net OPEB liability is significant to the School's financial statements, it is a liability that the School has limited control over. This liability is anticipated to continue to increase in future years as medical costs increase. Reporting in the governmental fund is not affected by the implementation of this statement.

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

**SUSSEX ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2018**

**Table 2  
Change in Net Position**

	Governmental Activities	
	2018	2017
<b>General revenues:</b>		
Charges to school districts	\$ 1,619,561	\$ 1,487,293
State aid not restricted to specific purposes	6,098,250	5,462,850
Earnings on cash and equivalents	13,205	27,572
Miscellaneous revenue	69,336	45,878
Total general revenues	7,800,352	7,023,593
<b>Program revenues:</b>		
Operating grants and contributions	363,422	305,371
Charges for services	200,626	70,455
<b>Total Revenues</b>	<b>8,364,400</b>	<b>7,399,419</b>
<b>Expenses:</b>		
Instructional services	6,828,489	5,817,608
Non-instructional programs	677,046	269,699
Supporting services:		
Operation and maintenance of facilities	939,619	653,991
Transportation	495,592	476,418
School food service	34,824	44,655
Interest on capital lease	701	1,805
<b>Total Expenses</b>	<b>8,976,271</b>	<b>7,264,176</b>
<b>Change in Net Deficit</b>	<b>\$ (611,871)</b>	<b>\$ 135,243</b>

***Governmental Activities***

The net deficit of the School's governmental activities increased by \$611,871, and the unrestricted net position reflects a deficit balance of \$12,783,933. This significant decrease from prior years is primarily the result of the School implementing GASB No. 75, as discussed earlier.

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.

**SUSSEX ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2018**

**Table 3  
Governmental Activities**

	Program Services			
	2018		2017	
	Total Cost	Net Cost (Revenue)	Total Cost	Net Cost (Revenue)
<b>Governmental Activities</b>				
Instructional services	\$ 6,828,489	\$ 6,513,412	\$ 5,817,608	\$ 5,553,395
Non-instructional programs	677,046	473,989	269,699	211,725
Support services:				
Operation and maintenance of facilities	939,619	933,464	653,991	642,866
Transportation	495,592	495,592	476,418	476,418
School food services	34,824	(4,935)	44,655	2,141
Interest on capital lease	701	701	1,805	1,805
<b>Total Expenses</b>	<b>\$ 8,976,271</b>	<b>\$ 8,412,223</b>	<b>\$ 7,264,176</b>	<b>\$ 6,888,350</b>

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 14) reported a fund balance of \$1,506,035, which is an increase from the prior year's amount of \$1,489,989. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018.

**Table 4  
The School's Funds**

	2018	2017	Increase
<b>General Fund</b>	<b>\$ 1,506,035</b>	<b>\$ 1,489,989</b>	<b>\$ 16,046</b>

**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 and state sources. Expenditures increased as well, at approximately the same overall rate as 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 additional grade levels and increased personnel costs related to the aquatics program. In addition, increased repairs and maintenance expenditures on the school building related to air conditioning unit repairs and flooring improvements to the main gym.

**SUSSEX ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2018**

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

**Table 5  
The School's Revenues**

	Amounts		Percentage (%) Change
	2018	2017	
<b>Revenues</b>			
Charges to school districts	\$ 1,619,561	\$ 1,487,293	8.89%
State sources	6,098,250	5,462,850	11.63%
Federal sources	227,600	227,701	-0.04%
Earnings on cash and equivalents	13,205	27,572	-52.11%
School food service fees	14,171	16,356	-13.36%
Facilities rental	6,155	11,125	-44.67%
Contributions	104,640	55,295	89.24%
Athletic revenue	22,757	15,000	51.71%
Swimming pool revenue	180,300	42,974	319.56%
Scholarship revenue	8,425	7,375	14.24%
Miscellaneous revenue	68,053	45,878	48.33%
<b>Total Revenues</b>	<b>\$ 8,363,117</b>	<b>\$ 7,399,419</b>	<b>13.02%</b>

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.

**Table 6  
The School's Expenditures**

	Amounts		Percentage (%) Change
	2018	2017	
<b>Expenditures by Object</b>			
Current:			
Instruction services	\$ 6,120,669	\$ 5,567,438	9.94%
Non-instructional programs	641,121	263,575	
Supporting services:			
Operation and maintenance of facilities	952,759	664,738	43.33%
Transportation	487,621	464,569	4.96%
School food services	34,824	44,655	-22.02%
Capital outlay	77,982	163,816	-52.40%
Debt service	33,378	17,263	93.35%
<b>Total Expenditures by Object</b>	<b>\$ 8,348,354</b>	<b>\$ 7,186,054</b>	<b>16.17%</b>

**SUSSEX ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2018**

**GENERAL FUND BUDGET INFORMATION**

The most significant budgeted fund is the general fund, which is presented on the modified accrual basis of accounting. Actual revenues exceeded budgeted revenues by \$104,018, and budgeted expenditures exceeded actual expenditures by \$18,034.

**CAPITAL ASSETS**

The School has \$859,418 invested in capital assets, net of depreciation. During the current year, the School made capital acquisitions of \$164,922 and incurred depreciation expense of \$193,892. Due to the School continuing to add additional grades, the School purchased significant capital assets.

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

- Purchase of iPads and other computer equipment totaling \$67,434
- Technology infrastructure totaling \$29,343
- Floor improvements which are still in progress to the main gym totaling \$27,500

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 lease has been paid in full as June 30, 2018. The School is also committed to certain noncapital leasing arrangements described in Note 8 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 has been lower than anticipated, but enrollment in grade 9 has increased annually since we began offering our high school program. The incoming ninth grade for school year 2019 is 128 students with an expectation that we will reach full capacity (130 students) at that grade level. 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 moved into an existing school building in June 2013 when the Executive and Foundation Boards brokered a building swap with a private school that did not enroll enough students to complete all of the interior construction of the building. Since that time, annual construction projects have resulted in a building that can accommodate all of the grade levels and instructional programs in our middle and high school configurations. The majority of the renovations and construction has been funded by (and accounted for) the Sussex Academy Foundation through low interest loans provided by the U.S. Department of Agriculture Rural Development. Since both the square footage of

**SUSSEX ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)  
YEAR ENDED JUNE 30, 2018**

the School and the types and quality of the athletic facilities has been increasing annually as we have grown, the related utilities and maintenance expenses have also increased. The enrollment at the upper levels, grades eleven and twelve, however are still lower than what was anticipated and, until those grade levels have graduated, getting a firm grasp on the annual revenue needs and projected expenses will remain a challenge to estimate. The annual budget process will be greatly enhanced once the School and its facilities have reached their final state, enrollment is at full capacity, and there is a several-year pattern of revenues and expenses to use for budget projections. Additionally, the School will be submitting a minor budget modification request to the Department of Education seeking to increase the approved enrollment from 770 to 840 students over a two-year period to acquire the additional resources that are projected to be needed to expand the curricular and service needs of our student body.

**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  
STATEMENTS OF NET POSITION  
JUNE 30, 2018 AND 2017**

	Governmental Activities	
	2018	2017
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,617,767	\$ 2,338,494
Accounts receivable	6,543	2,036
Total Current Assets	2,624,310	2,340,530
<b>NONCURRENT ASSETS:</b>		
Construction-in-progress	27,500	-
Depreciable capital assets, net	831,918	888,388
Total Noncurrent Assets	859,418	888,388
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension contributions	379,987	309,118
Deferred outflows - pension	1,217,380	1,330,927
Deferred OPEB contributions	402,119	383,939
Deferred outflows - OPEB	1,192,654	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	3,192,140	2,023,984
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	\$ 6,675,868	\$ 5,252,902
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 78,525	\$ 23,003
Accrued salaries	1,039,750	827,538
Capital lease	-	16,038
Total Current Liabilities	1,118,275	866,579
<b>NONCURRENT LIABILITIES:</b>		
Capital lease	-	16,639
Compensated absences	63,143	89,379
Net pension liability	2,428,230	2,271,864
Net OPEB Liability	13,361,601	13,271,252
Total Noncurrent Liabilities	15,852,974	15,649,134
<b>TOTAL LIABILITIES</b>	16,971,249	16,515,713
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows - pension	42,811	49,833
Deferred inflows - OPEB	1,586,323	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	1,629,134	49,833
<b>NET POSITION (DEFICIT)</b>		
Net investment in capital assets	859,418	855,711
Restricted	-	1,375
Unrestricted (deficit)	(12,783,933)	(12,169,730)
<b>TOTAL NET POSITION (DEFICIT)</b>	(11,924,515)	(11,312,644)
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)</b>	\$ 6,675,868	\$ 5,252,902

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

**SUSSEX ACADEMY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**(With Summarized Comparative Data for the Year Ended June 30, 2017)**

	Program Revenues			Net (Expense) Revenue and Changes in Net Deficit	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
	2018	2017	2018		2017
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ (6,828,489)	\$ -	\$ 315,077	\$ (5,553,395)	
Non-instructional programs	(677,046)	180,300	22,757	(211,725)	
Support services:					
Operation and maintenance of facilities	(939,619)	6,155	-	(642,866)	
Transportation	(495,592)	-	-	(476,418)	
School food services	(34,824)	14,171	25,588	(1,805)	
Interest on capital lease	(701)	-	-	(2,141)	
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ (8,976,271)</u>	<u>\$ 200,626</u>	<u>\$ 363,422</u>	<u>(6,888,350)</u>	
<b>GENERAL REVENUES</b>					
Charges to school districts			1,619,561	1,487,293	
Payments from primary government			6,098,250	5,462,850	
Earnings on cash and investments			13,205	27,572	
Other local sources			69,336	45,878	
<b>TOTAL GENERAL REVENUES</b>			<u>7,800,352</u>	<u>7,023,593</u>	
<b>CHANGE IN NET DEFICIT</b>			(611,871)	135,243	
<b>NET DEFICIT BEGINNING OF YEAR, RESTATED</b>			(11,312,644)	(11,447,887)	
<b>NET DEFICIT, END OF YEAR</b>			<u>\$ (11,924,515)</u>	<u>\$ (11,312,644)</u>	

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

**SUSSEX ACADEMY  
BALANCE SHEETS - GOVERNMENTAL FUND  
JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,617,767	\$ 2,338,494
Accounts receivable	6,543	2,036
<b>TOTAL ASSETS</b>	<u><u>\$ 2,624,310</u></u>	<u><u>\$ 2,340,530</u></u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 78,525	\$ 23,003
Accrued salaries	1,039,750	827,538
<b>TOTAL LIABILITIES</b>	<u>1,118,275</u>	<u>850,541</u>
 <b>FUND BALANCE:</b>		
Assigned	2,150	867
Restricted	-	1,375
Unassigned	1,503,885	1,487,747
<b>TOTAL FUND BALANCE</b>	<u>1,506,035</u>	<u>1,489,989</u>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 2,624,310</u></u>	<u><u>\$ 2,340,530</u></u>

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

**SUSSEX ACADEMY  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND  
TO STATEMENT OF NET POSITION  
JUNE 30, 2018**

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 1,506,035

The total net deficit 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. 859,418

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.

Compensated absences	\$ (63,143)	
Net pension liability	(2,428,230)	
Net OPEB liability	<u>(13,361,601)</u>	(15,852,974)

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 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 pension contributions	379,987	
Deferred outflows - pension	1,217,380	
Deferred inflows - pension	<u>(42,811)</u>	<u>1,554,556</u>

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

Deferred pension contributions	402,119	
Deferred outflows - OPEB	1,192,654	
Deferred inflows - OPEB	<u>(1,586,323)</u>	<u>8,450</u>

TOTAL NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (11,924,515)

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

**SUSSEX ACADEMY**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUND**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>		
Charges to school districts	\$ 1,619,561	\$ 1,487,293
State sources	6,098,250	5,462,850
Federal sources	227,600	227,701
Earnings on cash and cash equivalents	13,205	27,572
Food service revenue	14,171	16,356
Facilities rental	6,155	11,125
Contributions	104,640	55,295
Athletic revenue	22,757	15,000
Swimming pool revenue	180,300	42,974
Scholarship revenue	8,425	7,375
Miscellaneous revenue	68,053	45,878
<b>TOTAL REVENUES</b>	<u>8,363,117</u>	<u>7,399,419</u>
<b>EXPENDITURES</b>		
Current:		
Instructional services	6,120,669	5,567,438
Non-instructional programs	641,121	664,738
Operation and maintenance of facilities	952,759	464,569
Transportation	487,621	263,575
Food services	34,824	44,655
Capital outlays	77,982	163,816
Debt service:		
Principal	32,677	15,458
Interest	701	1,805
<b>TOTAL EXPENDITURES</b>	<u>8,348,354</u>	<u>7,186,054</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>14,763</u>	<u>213,365</u>
<b>OTHER FINANCING SOURCES</b>		
Refund of prior year expenditures	1,283	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>1,283</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	16,046	213,365
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>1,489,989</u>	<u>1,276,624</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 1,506,035</u>	<u>\$ 1,489,989</u>

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

**SUSSEX ACADEMY**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ 16,046

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 \$5,000 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	\$ 164,922	
Depreciation expense	<u>(193,892)</u>	(28,970)

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		32,677
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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.

Compensated absences		26,236
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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 School'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. (192,022)

OPEB expenses in the statement of activities differ from the amount reported in the governmental funds because OPEB expenses are recognized on the statement of activities based on the School's proportionate share of the expenses of the cost-sharing plan, whereas OPEB expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. (465,838)

CHANGE IN NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES \$ (611,871)

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

**SUSSEX ACADEMY  
STATEMENTS OF FIDUCIARY NET POSITION - AGENCY FUND  
JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	<u>\$ 101,822</u>	<u>\$ 91,172</u>
LIABILITIES		
Due to student groups	<u>\$ 101,822</u>	<u>\$ 91,172</u>
NET POSITION		
Unrestricted	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 101,822</u>	<u>\$ 91,172</u>

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

## SUSSEX ACADEMY

### 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 and is doing business as Sussex Academy. 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 ten 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 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 ("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.



SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

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

Separate financial statements are provided for the governmental fund and fiduciary fund, even though the latter are excluded from the entity-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

**Entity-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting, 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 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.

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

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

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.

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 \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. 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 and OPEB contributions resulting from pension and OPEB contributions subsequent to the measurement date of the net pension liability and OPEB liability and certain other items which represent differences related to changes in the net pension liability and OPEB 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

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

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

which represent differences related to changes in the net pension liability and net OPEB 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.

**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 \$63,143 at June 30, 2018.

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.

## SUSSEX ACADEMY

### NOTES TO FINANCIAL STATEMENTS

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

*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 or Head of School have provided otherwise in its commitment or assignment actions.

#### Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position invested in capital assets consists 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

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. The School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The School did not engage in any unrelated business activities during the fiscal year. Management believes it is more likely than not that its tax-exempt status and tax positions will be sustained if examined by authorities.

#### 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

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, therefore, should be read in conjunction with the School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Implementation of GASB Statement

During the year ended June 30, 2018, the School implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, with the objective of improving the accounting and financial reporting of state and local governments for other postemployment benefits. It requires that state and local governments recognize and record the actuarially determined net other post-employment benefit liability, or, for multi-employer cost sharing plans, the entity's share of the net other post-employment benefit liability, in the entity's financial statements.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2018, the School has a cash equivalent balance of \$2,719,589. Of that amount, \$2,216,965 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, 2018, the reported amount of the School's deposits not held with the State Treasurer's Office was \$502,624, and the bank balance was \$503,640. Of the bank balance, \$250,000 was covered by federal depository insurance, while \$253,640 was exposed to custodial credit risk because it was not insured nor covered by collateral held by the financial institution.

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is as follows:

	<u>Balances 6/30/17</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances 6/30/18</u>
General capital assets not being depreciated:				
Land	\$ -	\$ 27,500	\$ -	\$ 27,500
Total general capital assets not being depreciated	<u>-</u>	<u>27,500</u>	<u>-</u>	<u>27,500</u>
Capital assets being depreciated:				
Land improvements	-	20,664	-	20,664
Leasehold improvements	204,547	36,898	-	241,445
Furniture and equipment	1,252,869	79,860	-	1,332,729
Total capital assets being depreciated	<u>1,457,416</u>	<u>137,422</u>	<u>-</u>	<u>1,594,838</u>
Accumulated depreciation	<u>(569,028)</u>	<u>(193,892)</u>	<u>-</u>	<u>(762,920)</u>
Total capital assets being depreciated, net	<u>888,388</u>	<u>(56,470)</u>	<u>-</u>	<u>831,918</u>
Governmental Activities, Net	<u>\$ 888,388</u>	<u>\$ (28,970)</u>	<u>\$ -</u>	<u>\$ 859,418</u>

Depreciation expense was charged to the following activities:

Governmental Activities:	
Instructional services	\$ 143,630
Non-instructional programs	15,546
Operation and maintenance of facilities	26,745
Transportation	<u>7,971</u>
	<u>\$ 193,892</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 amortization of the bus at June 30, 2018 totaled \$47,329. As of June 30, 2018, the lease has been paid off.

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT (cont'd)

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

	Outstanding 6/30/17	Additions	Retirements	Outstanding 6/30/18	Amounts Due within One Year
Governmental Activities:					
Capital lease	\$ 32,677	\$ -	\$ 32,677	\$ -	\$ -
Compensated absences	89,379	-	26,236	63,143	-
Net pension liability	2,271,864	156,366	-	2,428,230	-
Net OPEB liability	13,271,252	90,349	-	13,361,601	-
Total Governmental Activities	<u>\$15,665,172</u>	<u>\$ 246,715</u>	<u>\$ 58,913</u>	<u>\$15,852,974</u>	<u>\$ -</u>

NOTE 5 FUND BALANCE

As of June 30, 2018, fund balance is composed of the following:

	General Fund
Assigned:	
School programs	\$ 2,150
Unassigned	<u>1,503,885</u>
Total Fund Balance	<u>\$ 1,506,035</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.

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, 2018. 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](http://www.delawarepensions.com).

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Plan Description and Eligibility

The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that 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.

*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.



SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

*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 67.7 percent with two percent reduction of the benefit, or 75 percent with a three percent reduction of the benefit, or 100 percent with six percent reduction of 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. For the year ended June 30, 2018, the rate of the employer contributions was 11.52 percent of covered payroll. The School's contribution to PERS for the year ended June 30, 2018 was \$379,987.

*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.

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

At June 30, 2018, the School reported a liability of \$2,428,230 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2016 to June 30, 2017. The School's proportion of the net pension liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2017, the School's proportion was 0.1656 percent, which was an increase of 0.0148 percent from its proportion measured as of June 30, 2016.

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

For the year ended June 30, 2018, the School recognized pension expense of \$572,009. At June 30, 2018, 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	\$ 283,869	\$ -
Changes in proportions	428,365	-
Changes in assumptions	477,115	-
Contributions subsequent to the date of measurement	379,987	-
Differences between actual and expected experience	<u>28,031</u>	<u>42,811</u>
	<u>\$ 1,597,367</u>	<u>\$ 42,811</u>

An amount of \$379,987 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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,

2019	\$ 182,626
2020	424,933
2021	327,433
2022	89,857
2023	<u>149,720</u>
	<u>\$ 1,174,569</u>

Actuarial Assumptions

The total pension liability as of the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions, applied to all periods:

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

- Investment return/discount rate – 7.0 percent, including inflation of 2.5 percent
- Salary increases – 2.5 percent to 11.5 percent, including inflation of 2.5 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-2014 Combined Mortality Table projected to 2017 using an adjusted version on MP-2015 mortality improvement scale on a fully generational basis.

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>	<u>Target Asset Allocation</u>
Domestic equity	5.7%	33.5%
International equity	5.7%	13.7%
Fixed income	2.0%	26.6%
Alternative investments	7.8%	22.7%
Cash and equivalents	0.0%	3.5%

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Discount Rate

The discount used to measure the total pension liability was 7.0 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, 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 7.0 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 (6.0 percent) or one percentage point higher (8.0 percent) than the current rate.

	1% Decrease 6.0%	Current Rate Discount Rate 7.0%	1% Increase 8.0%
School's proportionate share of the net pension liability	\$ 4,371,414	\$ 2,428,230	\$ 780,900

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](http://www.delawarepensions.com).

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Other Postemployment Benefits ("OPEB") Fund Trust ("the Plan"), which is a cost-sharing, multiple-employer defined benefit plan defined by the Delaware Code.

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS 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 DPERS Board of Pension Trustees, which acts as the Board of Trustees ("the Board") for the Plan and is responsible for the financial management of the Plan.

The following are brief descriptions of the Plan in effect as of June 30, 2018. For a more complete description, please refer to the Delaware Public Employees' Retirement System 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](http://www.delawarepensions.com).

Plan Description and Eligibility

The Plan is a cost-sharing multiple employer plan that covers all employees of the State that are eligible to participate in the defined benefit pension plan, including employees of other affiliated entities.

Benefits Provided

The Plan provides medical coverage to pensioners and their eligible dependents. The participant's cost of plan benefits is variable based on years of service. Pensioners who retire after July 1, 2012 and who become eligible for Medicare will pay an additional five percent of the Medicare Supplement offered by the State. Surviving spouses are eligible for coverage after a retiree's death.

Contributions

*Member Contributions*

By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of plan members are established and may not be amended by the State Legislature.

*Employer Contributions*

Participating employers fund the Plan for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. For the year ended June 30, 2018, the rate of the employer contribution was 12.19 percent of covered payroll. The School's contribution to the Plan for the year ended June 30, 2018 was \$402,119.

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Other Postemployment Benefits Plan Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2018, the School reported a liability of \$13,361,601 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total pension liability used to calculate the net OPEB liability was determined by rolling forward the Plan's total OPEB liability as of June 30, 2016 to June 30, 2017. The School's proportion of the net OPEB liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2017, the School's proportion was 0.1618 percent, which was an increase of 0.0157 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$867,957. At June 30, 2018, 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	\$ -	\$ 26,456
Changes in proportions	1,192,654	-
Changes in assumptions	-	1,559,867
Contributions subsequent to the date of measurement	<u>402,119</u>	<u>-</u>
	<u>\$ 1,594,773</u>	<u>\$ 1,586,323</u>

An amount of \$402,119 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the June 30, 2017 measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in OPEB expense as follows:

<u>Year Ending June 30,</u>	
2019	\$ (80,056)
2020	(80,056)
2021	(80,056)
2022	(80,056)
2023	<u>(73,445)</u>
	<u>\$ (393,669)</u>

## SUSSEX ACADEMY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 7 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

##### Actuarial Assumptions

The total OPEB liability as of the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions:

- Discount rate - 3.58 percent
- Salary increases - 3.25 percent + merit
- Healthcare cost trend rates - 7.00 percent

Mortality rates were based on the Sex Distinct RP-2014 Total Dataset Healthy Annuitant Mortality Table, including adjustment for healthy annuitant and disabled annuitant. Future mortality improvements are projected to 2020.

The total OPEB 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 2016. 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.

##### Discount Rate

The discount rate to measure the total OPEB liability was 2.85 percent at the beginning of the current measurement period and 3.58 percent at the end, based on the Bond Buyer GO 20-Bond Municipal Bond Index, an index satisfying the GASB requirement of an index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. 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 employer contributions to the Plan will continue to follow the pay-as-you-go contribution policy. Based on the assumptions of a pay-as-you-go plan, the discounts rates used at the June 30, 2017 and 2016 measurement date are equal to the applicable rate of the 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

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

The following presents the net OPEB liability, calculated using the discount rate of 3.58 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58 percent) or one percentage point higher (4.58 percent) than the current rate.

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

	1% Decrease 2.58%	Current Rate Discount Rate 3.58%	1% Increase 4.58%
School's proportionate share of the net pension liability	\$ 16,021,137	\$ 13,361,601	\$ 11,289,135

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, calculated using the healthcare cost trend rate of 7.0 percent, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate.

	1% Decrease 6.0%	Current Rate Discount Rate 7.0%	1% Increase 8.0%
School's proportionate share of the net pension liability	\$ 11,313,206	\$ 13,361,601	\$ 15,870,699

Plan Fiduciary Net Position

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

NOTE 8 LEASES

The School is involved in the following operating leasing arrangements:

School Facility

The School entered into a leasing arrangement for 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 was amended in August 2017 and was extended to June 2057. The lease calls for monthly rental payments of an amount equal to the Sussex Preparatory Academy Foundation, Inc.'s debt obligation for the property. Future minimum rental payments are as follows:



SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LEASES (cont'd)

Years Ending June 30,

2019	\$ 319,680
2020	493,920
2021	635,040
2022	546,840
2023	423,360
2024 - 2028	2,116,800
2029 - 2033	1,499,400
2034 - 2038	1,058,400
2039 - 2043	1,058,400
2044 - 2048	1,058,400
2049 - 2053	1,058,400
2054 - 2057	723,240
	<u>\$ 10,991,880</u>

Total rental costs incurred for the year ended June 30, 2018 were \$486,625.

Copier Equipment

In August 2016, the School entered into three operating leases for certain copier equipment in exchange for the two old copier leases. The operating leases are for a term of five years, expiring August 2021. The leases call for monthly payments of \$889. Future minimum lease payments are as follows:

Years Ending June 30,

2019	\$ 10,668
2020	10,668
2021	10,668
2022	889
	<u>\$ 32,893</u>

Total lease payments for the year ended June 30, 2018 was \$10,668.

Solar Panel

In March 2014, the School entered into an operating lease for solar panel equipment. The operating lease is for a term of 20 years, expiring February 2034. The lease calls for monthly payments of \$324, increasing approximately three percent each year. As of June 30, 2018, the

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 LEASES (cont'd)

monthly payment was \$365. In March 2017, the School entered into an operating lease for solar panel equipment to power the pool building. The operating lease is for a term of 20 years, expiring February 2037. The lease calls for monthly payments of \$155 increasing, approximately three percent each year. As of June 30, 2018 the monthly payment was \$159. Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	
2019	\$ 6,347
2020	6,537
2021	6,733
2022	6,935
2023	7,143
2024 - 2028	39,064
2029 - 2033	45,288
2034 - 2037	<u>16,000</u>
	<u>\$ 134,047</u>

NOTE 9 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 10 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.

SUSSEX ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 11 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	\$	137,847
Employment costs	\$	12,441
Contractual services	\$	8,611
Communications	\$	2,334
Public service utilities	\$	16,685
Insurance	\$	335
Transportation	\$	21,516

The excess expenditures over appropriations were financed by revenue that came in greater than anticipated amounts.

NOTE 12 PRIOR PERIOD RESTATEMENT

The School has decreased its July 1, 2016 net position by \$12,887,313 due to the effects of implementing GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The School recorded a beginning deferred outflow for OPEB contributions of \$383,939 and a beginning net OPEB liability of \$13,271,252.

NOTE 13 DEFICIT NET POSITION

For governmental activities, the unrestricted net deficit amount of \$12,783,933 includes the effect of the deferring the recognition of pension and OPEB contributions made subsequent to the measurement date of the net pension liability and net OPEB liability, and the deferred outflows related to the pension and OPEB plans. This is offset by the School's actuarially determined pension liability and OPEB liability, and the deferred inflows related to the pension and OPEB plans.

NOTE 14 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 28, 2018, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SUSSEX ACADEMY  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Charges to school districts	\$ 1,637,272	\$ 1,619,561	\$ 1,619,561	\$ -
State sources	5,764,789	6,098,250	6,098,250	-
Federal sources	175,854	216,876	227,600	10,724
Earnings on cash and cash investments	15,000	15,000	13,205	(1,795)
Food service revenue	19,146	9,412	14,171	4,759
Facilities rental	6,155	6,155	6,155	-
Contributions	18,501	18,501	104,640	86,139
Athletic revenue	22,757	22,757	22,757	-
Swimming pool revenue	44,162	44,162	180,300	136,138
Scholarship revenue	8,425	8,425	8,425	-
Miscellaneous revenue	-	200,000	68,053	(131,947)
<b>TOTAL REVENUES</b>	<u>7,712,061</u>	<u>8,259,099</u>	<u>8,363,117</u>	<u>104,018</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	3,780,748	3,868,202	4,006,049	(137,847)
Employment costs	1,855,573	1,876,429	1,888,870	(12,441)
Travel	9,750	18,500	14,138	4,362
Contractual services	185,000	271,470	280,081	(8,611)
Communications	21,750	16,250	18,584	(2,334)
Public utilities service	288,000	265,500	282,185	(16,685)
Insurance	55,000	40,000	40,335	(335)
Transportation	508,423	500,510	522,026	(21,516)
Land, buildings, and facilities	521,500	542,500	509,868	32,632
Repairs and maintenance	102,500	206,500	190,501	15,999
Supplies and materials	373,694	600,581	482,357	118,224
Scholarships awarded	-	7,500	2,000	5,500
Capital outlays	120,750	83,000	77,982	5,018
Debt service:				
Principal	32,677	32,677	32,677	-
Interest	701	701	701	-
<b>TOTAL EXPENDITURES</b>	<u>7,856,066</u>	<u>8,330,320</u>	<u>8,348,354</u>	<u>(18,034)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(144,005)</u>	<u>(71,221)</u>	<u>14,763</u>	<u>85,984</u>
<b>OTHER FINANCING SOURCES</b>				
Refund of prior year expenditures	-	-	1,283	1,283
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>-</u>	<u>-</u>	<u>1,283</u>	<u>1,283</u>
<b>NET CHANGE IN FUND BALANCE</b>	(144,005)	(71,221)	16,046	87,267
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>1,489,989</u>	<u>1,489,989</u>	<u>1,489,989</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 1,345,984</u>	<u>\$ 1,418,768</u>	<u>\$ 1,506,035</u>	<u>\$ 87,267</u>

**SUSSEX ACADEMY  
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
STATE OF DELAWARE EMPLOYEES' PENSION PLAN  
FOR THE YEAR ENDED JUNE 30, 2018**

PROPORTIONATE SHARE OF NET PENSION LIABILITY	MEASUREMENT DATE			
	JUNE 30, 2017	JUNE 30, 2016	JUNE 30, 2015	JUNE 30, 2014
School's proportion of the net pension liability	0.1656%	0.1508%	0.1237%	0.1021%
School's proportion of the net pension liability - dollar value	\$ 2,428,230	\$ 2,271,864	\$ 822,657	\$ 376,048
School's covered employee payroll	\$ 3,226,701	\$ 2,875,251	\$ 2,306,203	\$ 1,868,023
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	75.25%	79.01%	35.67%	20.13%
Plan fiduciary net position as a percentage of the total pension liability	85.31%	84.11%	92.67%	95.80%

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.

**SUSSEX ACADEMY  
 SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS  
 STATE OF DELAWARE EMPLOYEES' PENSION PLAN  
 FOR THE YEAR ENDED JUNE 30, 2018**

	<u>JUNE 30, 2018</u>	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
<b>CONTRIBUTIONS</b>				
Contractually required contribution	\$ 379,987	\$ 309,118	\$ 275,449	\$ 220,473
Contributions in relation to the contractually required contribution	<u>379,987</u>	<u>309,118</u>	<u>275,449</u>	<u>220,473</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 3,298,498	\$ 3,226,701	\$ 2,875,251	\$ 2,306,203
Contributions as a percentage of covered-employee payroll	11.52%	9.58%	9.58%	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.

**SUSSEX ACADEMY**  
**SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**  
**STATE OF DELAWARE EMPLOYEES' OPEB PLAN**  
**FOR THE YEAR ENDED JUNE 30, 2018**

<u>PROPORTIONATE SHARE OF NET OPEB LIABILITY</u>	<u>MEASUREMENT DATE</u> <u>JUNE 30, 2017</u>
School's proportion of the net OPEB liability	0.1618%
School's proportion of the net OPEB liability - dollar value	\$ 13,361,601
School's covered employee payroll	\$ 3,312,675
School's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	403.35%
Plan fiduciary net position as a percentage of the total OPEB liability	4.13%

In accordance with GASB Statement No. 75, 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.



**SUSSEX ACADEMY  
SCHEDULE OF SCHOOL OPEB CONTRIBUTIONS  
STATE OF DELAWARE EMPLOYEES' OPEB PLAN  
FOR THE YEAR ENDED JUNE 30, 2018**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2018</u>
Contractually required contribution	\$ 402,119
Contributions in relation to the contractually required contribution	<u>402,119</u>
Contribution excess	<u>\$ -</u>
School's covered employee payroll	\$ 3,923,112
Contributions as a percentage of covered-employee payroll	10.25%

In accordance with GASB Statement No. 75, 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  
COMBINING BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2018**

	State Allocation	Local Funding	Federal Funding	Totals
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 2,617,767	\$ -	\$ 2,617,767
Accounts receivable	-	6,543	-	6,543
<b>TOTAL ASSETS</b>	\$ -	\$ 2,624,310	\$ -	\$ 2,624,310
 <b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ 78,525	\$ -	\$ 78,525
Accrued salaries	-	1,039,750	-	1,039,750
<b>TOTAL LIABILITIES</b>	-	1,118,275	-	1,118,275
 <b>FUND BALANCE:</b>				
Assigned	-	2,150	-	2,150
Unassigned	-	1,503,885	-	1,503,885
<b>TOTAL FUND BALANCE</b>	-	1,506,035	-	1,506,035
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	\$ -	\$ 2,624,310	\$ -	\$ 2,624,310

**SUSSEX ACADEMY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

	State Allocation	Local Funding	Federal Funding	Totals
<b>REVENUES</b>				
Charges to school districts	-	1,619,561	-	1,619,561
State sources	6,098,250	-	-	6,098,250
Federal sources	-	-	227,600	227,600
Earnings on cash and cash investments	-	13,205	-	13,205
Food service revenue	-	14,171	-	14,171
Facilities rental	-	6,155	-	6,155
Contributions	-	104,640	-	104,640
Athletic revenue	-	22,757	-	22,757
Swimming pool revenue	-	180,300	-	180,300
Scholarship revenue	-	8,425	-	8,425
Miscellaneous revenue	-	68,053	-	68,053
<b>TOTAL REVENUES</b>	<b>6,098,250</b>	<b>2,037,267</b>	<b>227,600</b>	<b>8,363,117</b>
<b>EXPENDITURES</b>				
Current:				
Instructional services	4,235,154	1,692,503	193,012	6,120,669
Non-instructional programs	454,808	186,313	-	641,121
Operation and maintenance of facilities	613,845	338,914	-	952,759
Transportation	478,621	-	9,000	487,621
Food services	-	9,236	25,588	34,824
Capital outlays	70,420	7,562	-	77,982
Debt service:				
Principal	-	32,677	-	32,677
Interest	-	701	-	701
<b>TOTAL EXPENDITURES</b>	<b>5,852,848</b>	<b>2,267,906</b>	<b>227,600</b>	<b>8,348,354</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>245,402</b>	<b>(230,639)</b>	<b>-</b>	<b>14,763</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Refund of prior year expenditures	-	1,283	-	1,283
Transfer in (out)	(245,455)	245,455	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(245,455)</b>	<b>246,738</b>	<b>-</b>	<b>1,283</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(53)</b>	<b>16,099</b>	<b>-</b>	<b>16,046</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>53</b>	<b>1,489,936</b>	<b>-</b>	<b>1,489,989</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ -</b>	<b>\$ 1,506,035</b>	<b>\$ -</b>	<b>\$ 1,506,035</b>

**SUSSEX ACADEMY**  
**SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

EXPENDITURES

Current:

Salaries	\$ 4,006,049
Employment costs	1,888,870
Travel	14,138
Contractual services	280,081
Communications	18,584
Public utilities service	282,185
Insurance	40,335
Transportation	522,026
Land, buildings, and facilities	509,868
Repairs and maintenance	190,501
Supplies and materials	482,357
Scholarships awarded	2,000
Capital outlays	77,982
Debt service:	
Principal	32,677
Interest	701
	701

TOTAL EXPENDITURES

\$ 8,348,354

**SUSSEX ACADEMY**  
**BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND - CASH BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Charges to school districts	\$ 1,637,272	\$ 1,619,561	\$ 1,619,561	\$ -
State sources	5,764,789	6,098,250	6,098,250	-
Federal sources	175,854	216,876	229,636	12,760
Earnings on cash and cash investments	15,000	15,000	13,205	(1,795)
Food service revenue	19,146	9,412	14,171	4,759
Facilities rental	6,155	6,155	2,945	(3,210)
Contributions	18,501	18,501	104,640	86,139
Athletic revenue	22,757	22,757	22,757	-
Swimming pool revenue	44,162	44,162	177,967	133,805
Scholarship revenue	8,425	8,425	7,425	(1,000)
Miscellaneous revenue	-	200,000	68,053	(131,947)
<b>TOTAL REVENUES</b>	<u>7,712,061</u>	<u>8,259,099</u>	<u>8,358,610</u>	<u>99,511</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	3,780,748	3,868,202	3,864,183	4,019
Employment costs	1,855,573	1,876,429	1,818,525	57,904
Travel	9,750	18,500	14,138	4,362
Contractual services	185,000	271,470	279,688	(8,218)
Communications	21,750	16,250	18,584	(2,334)
Public utilities service	288,000	265,500	265,629	(129)
Insurance	55,000	40,000	40,335	(335)
Transportation	508,423	500,510	522,025	(21,515)
Land, buildings, and facilities	521,500	542,500	511,093	31,407
Repairs and maintenance	102,500	206,500	153,253	53,247
Supplies and materials	373,694	600,581	507,251	93,330
Scholarships awarded	-	7,500	2,000	5,500
Capital outlays	120,750	83,000	50,538	32,462
Debt service:		-		
Principal	32,677	32,677	32,677	-
Interest	701	701	701	-
<b>TOTAL EXPENDITURES</b>	<u>7,856,066</u>	<u>8,330,320</u>	<u>8,080,620</u>	<u>249,700</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(144,005)</u>	<u>(71,221)</u>	<u>277,990</u>	<u>349,211</u>
<b>OTHER FINANCING SOURCES</b>				
Refund of prior year expenditures	-	-	1,283	1,283
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>-</u>	<u>-</u>	<u>1,283</u>	<u>1,283</u>
<b>NET CHANGE IN FUND BALANCE</b>	(144,005)	(71,221)	279,273	350,494
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>2,338,494</u>	<u>2,338,494</u>	<u>2,338,494</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 2,194,489</u>	<u>\$ 2,267,273</u>	<u>\$ 2,617,767</u>	<u>\$ 350,494</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

September 28, 2018

Board of Directors  
Sussex Academy  
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 Sussex Academy ("the School"), Georgetown, Delaware, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 28, 2018.

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 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

### 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