



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

FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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INDEPENDENT AUDITOR'S REPORT

September 20, 2017

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the governmental fund, and the aggregate remaining fund information of the Sussex Academy of Arts & Sciences ("the School"), Georgetown, Delaware, a component unit of the State of Delaware, as of and for the year ended June 30, 2017, 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
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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 the Sussex Academy of Arts & Sciences as of June 30, 2017, 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.

Report of Summarized Comparative Information

We have previously audited the Sussex Academy of Arts & Sciences' 2016 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 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 - 10, budgetary comparison schedule - general fund on page 34, schedule of the School's proportionate share of the net pension liability on page 35, and schedule of School contributions on page 36 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

Board of Directors
Sussex Academy of Arts & Sciences

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 20, 2017 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
YEAR ENDED JUNE 30, 2017**

Our discussion and analysis of the Sussex Academy of Arts & Sciences' ("the School") financial performance provides an overview of the financial activities for the year ended June 30, 2017. 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 11.

FINANCIAL HIGHLIGHTS

The net position of the School increased by \$135,243, or 9.40 percent. Program revenues accounted for \$375,826, or 5.08 percent of total revenues, and general revenues accounted for \$7,023,593, or 94.92 percent of total revenues. Also, the general fund reported a positive fund balance of \$1,489,989.

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 of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting which is similar to the accounting used by private sector corporations. All of the year's revenues and expenses are taken into consideration regardless of when the cash is received or paid. These two statements report the School's net position and changes thereof. The change in net position provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment and facility conditions in arriving at their conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major fund and fund financial statements begins on page 13. 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.

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2017**

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 17. These activities are excluded from the School's other financial statements since these assets may not be utilized by the School to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,574,669 at the close of the fiscal year. The largest portion of the School's total assets is cash and equivalents (72.43 percent); other assets (0.06 percent) and capital assets net of depreciation (27.51 percent) make up the remaining assets. The School uses capital assets to provide services; consequently, capital assets are not available for future spending.

A summarized comparative analysis for the fiscal year 2017 to 2016 follows:

**Table 1
Net Position**

	Governmental Activities	
	2017	2016
Assets		
Current assets	\$ 2,340,530	\$ 2,062,572
Noncurrent assets	888,388	836,420
Total Assets	3,228,918	2,898,992
Deferred Outflows of Resources		
Deferred pension	1,640,045	547,904

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2017**

**Table 1
Net Position**

(cont'd)	Governmental Activities	
	2017	2016
Liabilities		
Current liabilities	866,579	801,406
Noncurrent liabilities	2,377,882	936,079
Total Liabilities	<u>3,244,461</u>	<u>1,737,485</u>
Deferred Inflows of Resources		
Deferred pension	49,833	269,985
Net Position		
Net investment in capital assets	855,711	788,285
Restricted	1,375	-
Unrestricted	717,583	651,141
Total Net Position	<u>\$ 1,574,669</u>	<u>\$ 1,439,426</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 School may use the balance of unrestricted net position of \$718,958, reflected above in Table 1, to meet future operating activities.

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

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

**Table 2
Change in Net Position**

	Governmental Activities	
	2017	2016
General revenues:		
Charges to school districts	\$ 1,487,293	\$ 1,237,056
State aid not restricted to specific purposes	5,462,850	4,742,970
Earnings on cash and equivalents	27,572	16,776
Miscellaneous revenue	45,878	84,217
Total general revenues	<u>7,023,593</u>	<u>6,081,019</u>
Program revenues:		
Operating grants and contributions	305,371	378,393
Charges for services	70,455	36,309
Total Revenues	<u>7,399,419</u>	<u>6,495,721</u>

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2017**

**Table 2
Change in Net Position**

(cont'd)	Governmental Activities	
	2017	2016
Expenses:		
Instructional services	5,817,608	5,009,383
Non-instructional programs	269,699	184,527
Supporting services:		
Operation and maintenance of facilities	653,991	658,581
Transportation	476,418	480,638
School food service	44,655	47,391
Interest on capital lease	1,805	2,364
Total Expenses	7,264,176	6,382,884
Change in Net Position	\$ 135,243	\$ 112,837

Governmental Activities

The net position of the School's governmental activities increased by \$135,243, and unrestricted net position reflects a positive balance of \$718,958. The increase in the net position for both the current and prior years is primarily the result of the School's increases in the overall level of funding from the State of Delaware and local school districts due to increased enrollment in the student population as a result of the school expansion.

The statement of activities shows the cost of program services and the charges for services, and grants and contributions offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities. General revenues which include charges to school districts, State aid not restricted for specific purposes, cash and investment earnings, and other local revenues must support the net cost of the programs.

	Services			
	2017		2016	
	Total Cost	Net Cost (Revenue)	Total Cost	Net Cost (Revenue)
Governmental Activities				
Instructional services	\$ 5,817,608	\$ 5,553,395	\$ 5,009,363	\$ 4,660,080
Non-instructional programs	269,699	211,725	184,547	184,547
Support services:				
Operation and maintenance of facilities	653,991	642,866	658,581	644,144
Transportation	476,418	476,418	480,638	480,638
School food services	44,655	2,141	47,391	(3,591)
Interest on capital lease	1,805	1,805	2,364	2,364
Total Expenses	\$ 7,264,176	\$ 6,888,350	\$ 6,382,884	\$ 5,968,182

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2017**

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 13) reported a fund balance of \$1,489,989, which is an increase from the prior year's amount of \$1,276,624. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017.

	2017	2016	Increase
General Fund	\$ 1,489,989	\$ 1,276,624	\$ 213,365

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. In addition, the utility cost of maintaining the expanded building to accommodate this growth impacted the overall expenses.

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

	Amounts		Percentage (%) Change
	2017	2016	
Revenues			
Charges to school districts	\$ 1,487,293	\$ 1,237,056	20.23%
State sources	5,462,850	4,742,970	15.18%
Federal sources	227,701	185,238	22.92%
Earnings on cash and equivalents	27,572	16,776	64.35%
School food service fees	16,356	21,872	-25.22%
Facilities rental	11,125	14,437	-22.94%
Contributions	55,295	193,155	-71.37%
Athletic revenue	15,000	-	100.00%
Swimming pool revenue	42,974	-	100.00%
Scholarship revenue	7,375	-	100.00%
Miscellaneous revenue	45,878	83,717	-45.20%
Total Revenues	\$ 7,399,419	\$ 6,495,221	13.92%

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2017**

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

	Amounts		Percentage (%) Change
	2017	2016	
Expenditures by Object			
Current:			
Instruction services	\$ 5,567,438	\$ 5,001,978	11.30%
Non-instructional programs	263,575	184,547	42.82%
Supporting services:			
Operation and maintenance of facilities	664,738	724,394	-8.24%
Transportation	464,569	470,387	-1.24%
School food services	44,655	47,391	-5.77%
Capital outlay	163,816	48,043	240.98%
Debt service	17,263	17,263	0.00%
Total Expenditures by Object	\$ 7,186,054	\$ 6,494,003	10.66%

GENERAL FUND BUDGET INFORMATION

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

CAPITAL ASSETS

The School has \$888,388 invested in capital assets, net of depreciation. During the current year, the School made capital acquisitions of \$225,524 and incurred depreciation expense of \$173,556. 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 equipment totaling \$96,089
- School furniture totaling \$42,815

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

DEBT OBLIGATIONS

In fiscal year 2014, the School entered into a capital lease to purchase a 2014 Blue Bird school bus. The outstanding balance of the capital lease obligation as of June 30, 2017 totaled \$32,677. The School is also committed to certain leasing arrangements described in Note 7 to the financial statements.

**SUSSEX ACADEMY OF ARTS & SCIENCES
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2017**

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 nine has increased annually since we began offering our high school program. The incoming ninth grade for school year 2018 is above full capacity (130 students). Since the School has no direct taxing authority, it is reliant upon federal and state revenues that are passed through to the School by the State, as well as local support. In order to maintain a school that thrives on innovation and quality, the School continues to seek other sources of revenue.

The School 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 new construction has been funded by (and accounted for) the Sussex Academy Foundation through low-interest loans provided by the U.S. Department of Agriculture. Since both the square footage of 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.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	Governmental Activities	
	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,338,494	\$ 1,986,710
Accounts receivable:		
Sussex Academy Foundation	-	70,000
Other	2,036	5,862
Total Current Assets	2,340,530	2,062,572
NONCURRENT ASSETS:		
Depreciable capital assets, net	888,388	836,420
Total Noncurrent Assets	888,388	836,420
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions	309,118	275,449
Deferred outflows - pension	1,330,927	272,455
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,640,045	547,904
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,868,963	\$ 3,446,896
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 23,003	\$ 18,745
Accrued salaries	827,538	767,203
Capital lease	16,038	15,458
Total Current Liabilities	866,579	801,406
NONCURRENT LIABILITIES:		
Capital lease	16,639	32,677
Compensated absences	89,379	80,745
Net pension liability	2,271,864	822,657
Total Noncurrent Liabilities	2,377,882	936,079
 TOTAL LIABILITIES	3,244,461	1,737,485
 DEFERRED INFLOWS OF RESOURCES		
Deferred pension contributions	49,833	269,985
 NET POSITION		
Net investment in capital assets	855,711	788,285
Restricted	1,375	-
Unrestricted	717,583	651,141
TOTAL NET POSITION	1,574,669	1,439,426
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 4,868,963	\$ 3,446,896

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

SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(With Summarized Comparative Data for the Year Ended June 30, 2016)

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
	2017	2016	2017	2016	2017	2016
GOVERNMENTAL ACTIVITIES						
Instructional services	\$ (5,817,608)	-	\$ 264,213	-	\$ (5,553,395)	\$ (4,660,080)
Non-instructional programs	(269,699)	42,974	15,000		(211,725)	(184,547)
Support services:						
Operation and maintenance of facilities	(653,991)	11,125	-	-	(642,866)	(644,144)
Transportation	(476,418)	-	-	-	(476,418)	(480,638)
School food services	(44,655)	16,356	26,158	-	(2,141)	3,591
Interest on capital lease	(1,805)	-	-	-	(1,805)	(2,364)
TOTAL GOVERNMENTAL ACTIVITIES	\$ (7,264,176)	\$ 70,455	\$ 305,371	\$ -	(6,888,350)	(5,968,182)
GENERAL REVENUES						
Charges to school districts					1,487,293	1,237,056
Payments from primary government					5,462,850	4,742,970
Earnings on cash and investments					27,572	16,776
Other local sources					45,878	84,217
TOTAL GENERAL REVENUES					7,023,593	6,081,019
CHANGE IN NET POSITION					135,243	112,837
NET POSITION, BEGINNING OF YEAR					1,439,426	1,326,589
NET POSITION, END OF YEAR					\$ 1,574,669	\$ 1,439,426

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

**SUSSEX ACADEMY OF ARTS & SCIENCES
BALANCE SHEETS - GOVERNMENTAL FUND
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 2,338,494	\$ 1,986,710
Accounts receivable:		
Sussex Academy Foundation	-	70,000
Other	2,036	5,862
TOTAL ASSETS	\$ 2,340,530	\$ 2,062,572
 LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable	\$ 23,003	\$ 18,745
Accrued salaries	827,538	767,203
TOTAL LIABILITIES	850,541	785,948
 FUND BALANCE:		
Assigned	867	4,291
Restricted	1,375	-
Unassigned	1,487,747	1,272,333
TOTAL FUND BALANCE	1,489,989	1,276,624
 TOTAL LIABILITIES AND FUND BALANCE	\$ 2,340,530	\$ 2,062,572

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

**SUSSEX ACADEMY OF ARTS & SCIENCES
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUND
TO STATEMENT OF NET POSITION
JUNE 30, 2017**

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 1,489,989

The total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statements of net position. 888,388

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

Capital lease	\$ (32,677)	
Compensated absences	(89,379)	
Net pension liability	<u>(2,271,864)</u>	(2,393,920)

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	309,118	
Deferred outflows - pension	1,330,927	
Deferred inflows - pension	<u>(49,833)</u>	<u>1,590,212</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,574,669

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

**SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
REVENUES		
Charges to school districts	\$ 1,487,293	\$ 1,237,056
State sources	5,462,850	4,742,970
Federal sources	227,701	185,238
Earnings on cash and cash equivalents	27,572	16,776
Food service revenue	16,356	21,872
Facilities rental	11,125	14,437
Contributions	55,295	193,155
Athletic revenue	15,000	-
Swimming pool revenue	42,974	-
Scholarship revenue	7,375	-
Miscellaneous revenue	45,878	83,717
TOTAL REVENUES	<u>7,399,419</u>	<u>6,495,221</u>
EXPENDITURES		
Current:		
Instructional services	5,567,438	5,001,998
Non-instructional programs	263,575	184,527
Operation and maintenance of facilities	664,738	724,394
Transportation	464,569	470,387
Food services	44,655	47,391
Capital outlays	163,816	48,043
Debt service:		
Principal	15,458	14,899
Interest	1,805	2,364
TOTAL EXPENDITURES	<u>7,186,054</u>	<u>6,494,003</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>213,365</u>	<u>1,218</u>
OTHER FINANCING SOURCES		
Refund of prior year expenditures	-	500
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>500</u>
NET CHANGE IN FUND BALANCE	213,365	1,718
FUND BALANCE, BEGINNING OF YEAR	<u>1,276,624</u>	<u>1,274,906</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,489,989</u>	<u>\$ 1,276,624</u>

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

**SUSSEX ACADEMY OF ARTS & SCIENCES
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ 213,365

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

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

Capital outlays	\$ 225,524	
Depreciation expense	<u>(173,556)</u>	51,968

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		15,458
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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		(8,634)
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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.

(136,914)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$ 135,243</u></u>
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The accompanying notes are an integral part of these financial statements.

**SUSSEX ACADEMY OF ARTS & SCIENCES
STATEMENTS OF FIDUCIARY NET POSITION - AGENCY FUND
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 91,172	\$ 80,491
LIABILITIES		
Due to student groups	\$ 91,172	\$ 80,491
NET POSITION		
Unrestricted	-	-
TOTAL LIABILITIES AND NET POSITION	\$ 91,172	\$ 80,491

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

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

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

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

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

Reporting Entity

The School is a special purpose government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Entity-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

SUSSEX ACADEMY OF ARTS & SCIENCES

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 OF ARTS & SCIENCES

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 contributions resulting from pension contributions subsequent to the measurement date of the net pension liability and certain other items which represent differences related to changes in the net pension liability which will be amortized over future periods. In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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

separate financial statement element represents a source of net position that applies to future periods. The School reports certain items which represent differences related to changes in the net pension liability which will be amortized over future periods.

Compensated Absences

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

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 \$88,379 at June 30, 2017.

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 OF ARTS & SCIENCES

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 OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

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

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and, therefore, should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Reclassification of Prior Year Balances

Expenses and revenues for non-instructional programs have been classified as their own line item in the statement of activities for the year ended June 30, 2017. In the prior year, these expenses were classified as instructional services. In the statement of activities, the amounts reported in the 2016 column for instructional services and non-instructional programs have been restated to be consistent with the current year presentation. This reclassification had no effect on total annual expenses, change in net position, or ending net position.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2017, the School has a cash equivalent balance of \$2,429,666. Of that amount, \$2,103,024 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, 2017, the reported amount of the School's deposits not held with the State Treasurer's Office was \$326,642, and the bank balance was \$327,315. Of the bank balance, \$250,000 was covered by federal depository insurance, while \$77,315 was exposed to custodial credit risk because it was not insured nor covered by collateral held by the financial institution.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	<u>Balances</u> <u>7/01/16</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>6/30/17</u>
Capital assets being depreciated:				
Leasehold improvements	\$ 175,494	\$ 29,053	\$ -	\$ 204,547
Furniture and equipment	<u>1,056,398</u>	<u>196,471</u>	<u>-</u>	<u>1,252,869</u>
Total capital assets being depreciated	1,231,892	225,524	-	1,457,416
Accumulated depreciation	<u>(395,472)</u>	<u>(173,556)</u>	<u>-</u>	<u>(569,028)</u>
Total capital assets being depreciated, net	<u>836,420</u>	<u>51,968</u>	<u>-</u>	<u>888,388</u>
Governmental Activities, Net	<u>\$ 836,420</u>	<u>\$ 51,968</u>	<u>\$ -</u>	<u>\$ 888,388</u>

Depreciation expense was charged to the following activities:

Governmental activities:	
Instructional services	\$ 135,482
Operation and maintenance of facilities	20,101
Non-instruction programs	<u>6,124</u>
	<u>\$ 173,556</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, 2017 totaled \$37,863.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT (cont'd)

The aggregate future minimum lease payments under the capital lease obligation as of June 30, 2017 are as follows:

<u>Years Ending June 30,</u>	
2018	\$ 17,263
2019	<u>17,263</u>
Total future minimum payments	34,526
Less amount representing interest	<u>1,849</u>
Present value of future minimum payments	<u>\$ 32,677</u>

The first payment was due at the signing of the lease and was principal only. A schedule of changes in long-term liabilities is as follows:

	<u>Outstanding 7/01/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding 6/30/17</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Capital lease	\$ 48,135	\$ -	\$ 15,458	\$ 32,677	\$ 16,038
Compensated absences	<u>80,745</u>	<u>8,634</u>	<u>-</u>	<u>89,379</u>	<u>-</u>
Total Governmental Activities	<u>\$ 128,880</u>	<u>\$ 8,634</u>	<u>\$ 15,458</u>	<u>\$ 122,056</u>	<u>\$ 16,038</u>

NOTE 5 FUND BALANCE

As of June 30, 2017, fund balance is composed of the following:

	<u>General Fund</u>
Assigned:	
School programs	\$ 867
Restricted:	
Scholarships	1,375
Unassigned	<u>1,487,747</u>
Total Fund Balance	<u>\$ 1,489,989</u>

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan ("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, 2017. For a more complete description, please refer to the Delaware Employees' Pension Plan Comprehensive Annual Financial Report. Separately issued financial statements for the Plan may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904; by calling 1-800-722-7300; or by visiting the PERS website at www.delawarepensions.com.

Plan Description and Eligibility

The State Employees' Pension Plan 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.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

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.

Survivor and Burial Benefits

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

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

Contributions

Member Contributions

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

Employer Contributions

Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2017, the rate of the employer contributions was 9.58 percent of covered payroll. The School's contribution to PERS for the year ended June 30, 2017 was \$309,118.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

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, 2017, the School reported a liability of \$2,271,864 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 to June 30, 2016. 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, 2016, the School's proportion was 0.1508 percent, which was an increase of 0.0271 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School recognized pension expense in the amount of \$446,032. At June 30, 2017, 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	\$ 708,901	\$ -
Differences between actual and expected experience	-	49,833
Changes in assumptions	210,379	
Changes in proportions	412,457	-
Contributions subsequent to the date of measurement	<u>309,118</u>	<u>-</u>
	<u>\$ 1,640,045</u>	<u>\$ 49,833</u>

An amount of \$309,118 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date (June 30, 2016) 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:

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Years Ending June 30,

2017	\$ 291,623
2018	291,623
2019	291,623
2020	291,623
2021	<u>114,602</u>
	<u>\$ 1,281,094</u>

Actuarial Assumptions

The total pension liability as of the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. These actuarial valuations used the following actuarial assumptions, applied to all periods:

- Investment return – 7.2 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 2016 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

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

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:

Asset Class	Long-term Expected Real Rate of Return	Target Asset Allocation
Domestic equity	5.7%	34.0%
International equity	5.7%	14.7%
Fixed income	2.0%	25.0%
Alternative investments	7.8%	20.9%
Cash and equivalents	0.0%	5.4%

Discount Rate

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

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

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

	1% Decrease 6.2%	Current Rate Discount Rate 7.2%	1% Increase 8.2%
School's proportionate share of the net pension liability	\$ 3,948,775	\$ 2,271,864	\$ 862,024

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 6 PENSION PLAN (cont'd)

Pension Plan Fiduciary Net Position

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

NOTE 7 LEASES

The School is involved in the following operating leasing arrangements:

School Facility

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

Years Ending June 30,

2018	\$ 301,500
2019	301,500
2020	301,500
2021	301,500
2022	301,500
2023 - 2027	1,507,500
2028 - 2032	1,507,500
2033 - 2037	1,507,500
2038 - 2042	1,507,500
2043 - 2047	1,507,500
2048 - 2052	1,507,500
2053	301,500
	<u>\$ 10,854,000</u>

Total rental costs incurred for the year ended June 30, 2017 were \$301,500. In addition, during the year ended June 30, 2017, the School paid \$72,401 in interest expense on behalf of the Sussex Preparatory Academy Foundation, Inc. on a construction loan obtained by the Foundation to finance renovations being made to the facilities used by the School. When the renovations are completed, the repayment terms of the construction loan will be formalized in a separate leasing arrangement between the School and the Foundation.

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 7 LEASES (cont'd)

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 2022. The leases call for monthly payments of \$889. Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	
2018	\$ 10,668
2019	10,668
2020	10,668
2021	10,668
2022	889
	<u>43,561</u>
	<u>\$ 43,561</u>

Total lease payments for the year ended June 30, 2017 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, 2017, the monthly payment was \$354. 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, 2017 the monthly payment was \$155. Future minimum lease payments are as follows:

<u>Years Ending June 30,</u>	
2018	\$ 6,162
2019	6,347
2020	6,537
2021	6,734
2022	6,936
2023 - 2027	37,926
2028 - 2032	43,966
2033 - 2037	25,600
	<u>140,208</u>
	<u>\$ 140,208</u>

SUSSEX ACADEMY OF ARTS & SCIENCES

NOTES TO FINANCIAL STATEMENTS

NOTE 8 RISK MANAGEMENT

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

NOTE 9 COMMITMENTS AND CONTINGENCIES

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

Grants

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

NOTE 10 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	\$	17,568
Travel	\$	1,244
Contractual services	\$	9,706
Communications	\$	2,887
Supplies and materials	\$	20,293
Scholarships awarded	\$	7,500

The excess expenditures over appropriations was financed by other expenditure category appropriations which did not exceed their budget amounts.

NOTE 11 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 20, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**SUSSEX ACADEMY OF ARTS & SCIENCES
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 1,397,837	\$ 1,487,293	\$ 1,487,293	\$ -
State sources	5,337,947	5,465,582	5,462,850	(2,732)
Federal sources	195,729	187,978	227,701	39,723
Earnings on cash and cash investments	11,000	18,500	27,572	9,072
Food service revenue	15,955	19,146	16,356	(2,790)
Facilities rental	11,125	11,125	11,125	-
Contributions	55,295	55,295	55,295	-
Athletic revenue	15,000	15,000	15,000	-
Swimming pool revenue	42,974	42,974	42,974	-
Scholarship revenue	7,375	7,375	7,375	-
Miscellaneous revenue	68,231	113,231	45,878	(67,353)
TOTAL REVENUES	<u>7,158,468</u>	<u>7,423,499</u>	<u>7,399,419</u>	<u>(24,080)</u>
EXPENDITURES				
Current:				
Salaries	3,458,072	3,384,837	3,402,405	(17,568)
Employment costs	1,611,256	1,679,486	1,659,720	19,766
Travel	11,000	5,250	6,494	(1,244)
Contractual services	191,700	158,000	167,706	(9,706)
Communications	15,250	18,780	21,667	(2,887)
Public utilities service	247,000	247,500	228,834	18,666
Insurance	62,500	55,000	42,927	12,073
Transportation	502,237	505,237	495,002	10,235
Land, buildings, and facilities	508,500	506,500	349,892	156,608
Repairs and maintenance	125,500	117,500	90,709	26,791
Supplies and materials	487,335	511,826	532,119	(20,293)
Scholarships awarded	-	-	7,500	(7,500)
Capital outlays	112,600	216,320	163,816	52,504
Debt service:				
Principal	15,458	15,458	15,458	-
Interest	1,805	1,805	1,805	-
TOTAL EXPENDITURES	<u>7,350,213</u>	<u>7,423,499</u>	<u>7,186,054</u>	<u>237,445</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(191,745)</u>	<u>-</u>	<u>213,365</u>	<u>213,365</u>
NET CHANGE IN FUND BALANCE	(191,745)	-	213,365	213,365
FUND BALANCE, BEGINNING OF YEAR	<u>1,276,624</u>	<u>1,276,624</u>	<u>1,276,624</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,084,879</u>	<u>\$ 1,276,624</u>	<u>\$ 1,489,989</u>	<u>\$ 213,365</u>

**SUSSEX ACADEMY OF ARTS & SCIENCES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	MEASUREMENT DATE		
	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>	<u>JUNE 30, 2014</u>
PROPORTIONATE SHARE OF NET PENSION LIABILITY			
School's proportion of the net pension liability	0.1508%	0.1237%	0.1021%
School's proportion of the net pension liability - dollar value	\$ 2,271,864	\$ 822,657	\$ 376,048
School's covered employee payroll	\$ 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	79.01%	35.67%	20.13%
Plan fiduciary net position as a percentage of the total pension liability	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 OF ARTS & SCIENCES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL CONTRIBUTIONS**

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

SUPPLEMENTARY INFORMATION

**SUSSEX ACADEMY OF ARTS & SCIENCES
COMBINING BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2017**

	State Allocation	Local Funding	Federal Funding	Totals
ASSETS				
Cash and cash equivalents	\$ 53	\$ 2,338,441	\$ -	\$ 2,338,494
Accounts receivable	-	-	2,036	2,036
Other	-	2,036	-	2,036
Due from other funding source	-	-	-	-
TOTAL ASSETS	\$ 53	\$ 2,340,477	\$ 2,036	\$ 2,342,566
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable	\$ -	\$ 23,003	\$ -	\$ 23,003
Accrued salaries	-	827,538	-	827,538
Due to other funding source	-	-	2,036	2,036
TOTAL LIABILITIES	-	850,541	2,036	852,577
FUND BALANCE:				
Assigned	-	867	-	867
Restricted	-	1,375	-	1,375
Unassigned	53	1,487,694	-	1,487,747
TOTAL FUND BALANCE	53	1,489,936	-	1,489,989
TOTAL LIABILITIES AND FUND BALANCE	\$ 53	\$ 2,340,477	\$ 2,036	\$ 2,342,566

SUSSEX ACADEMY OF ARTS & SCIENCES
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	State Allocation	Local Funding	Federal Funding	Totals
REVENUES				
Charges to school districts	-	1,487,293	-	\$ 1,487,293
State sources	5,462,850	-	-	5,462,850
Federal sources	-	-	227,701	227,701
Earnings on cash and cash investments	-	27,572	-	27,572
Food service revenue	-	16,356	-	16,356
Facilities rental	-	11,125	-	11,125
Contributions	-	55,295	-	55,295
Athletic revenue	-	15,000	-	15,000
Swimming pool revenue	-	42,974	-	42,974
Scholarship revenue	-	7,375	-	7,375
Miscellaneous revenue	-	45,878	-	45,878
TOTAL REVENUES	5,462,850	1,708,868	227,701	7,399,419
EXPENDITURES				
Current:				
Instructional services	4,158,592	1,257,303	151,543	5,567,438
Non-instructional programs	-	263,575	-	263,575
Operation and maintenance of facilities	561,234	103,504	-	664,738
Transportation	438,241	26,328	-	464,569
Food services	-	18,497	26,158	44,655
Capital outlays	88,886	24,930	50,000	163,816
Debt service:				
Principal	15,458	-	-	15,458
Interest	1,805	-	-	1,805
TOTAL EXPENDITURES	5,264,216	1,694,137	227,701	7,186,054
EXCESS OF REVENUES OVER EXPENDITURES	198,634	14,731	-	213,365
OTHER FINANCING SOURCES (USES)				
Transfer in (out)	(203,221)	203,221	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(203,221)	203,221	-	-
NET CHANGE IN FUND BALANCES	(4,587)	217,952	-	213,365
FUND BALANCES, BEGINNING OF YEAR	4,640	1,271,984	-	1,276,624
FUND BALANCES, END OF YEAR	\$ 53	\$ 1,489,936	\$ -	\$ 1,489,989

**SUSSEX ACADEMY OF ARTS & SCIENCES
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

EXPENDITURES

Current:

Salaries	\$ 3,402,405
Employment costs	1,659,720
Travel	6,494
Contractual services	167,706
Communications	21,667
Public utilities service	228,834
Insurance	42,927
Transportation	495,002
Land, buildings, and facilities	349,892
Repairs and maintenance	90,709
Supplies and materials	532,119
Scholarships awarded	7,500
Capital outlays	163,816
Debt service:	
Principal	15,458
Interest	1,805

TOTAL EXPENDITURES

\$ 7,186,054

SUSSEX ACADEMY OF ARTS & SCIENCES
BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 1,397,837	\$ 1,487,293	\$ 1,487,293	\$ -
State sources	5,337,947	5,465,582	5,462,850	(2,732)
Federal sources	195,729	187,978	229,095	41,117
Earnings on cash and cash investments	11,000	18,500	27,572	9,072
Food service revenue	15,955	19,146	16,356	(2,790)
Facilities rental	11,125	11,125	12,175	1,050
Contributions	55,295	55,295	125,295	70,000
Athletic revenue	15,000	15,000	15,000	-
Swimming pool revenue	42,974	42,974	42,974	-
Scholarship revenue	7,375	7,375	7,375	-
Miscellaneous revenue	68,231	113,231	47,261	(65,970)
TOTAL REVENUES	<u>7,158,468</u>	<u>7,423,499</u>	<u>7,473,246</u>	<u>49,747</u>
EXPENDITURES				
Current:				
Salaries	3,458,072	3,384,837	3,352,877	31,960
Employment costs	1,611,256	1,679,486	1,648,913	30,573
Travel	11,000	5,250	6,494	(1,244)
Contractual services	191,700	158,000	164,602	(6,602)
Communications	15,250	18,780	21,666	(2,886)
Public utilities service	247,000	247,500	222,945	24,555
Insurance	62,500	55,000	42,927	12,073
Transportation	502,237	505,237	495,002	10,235
Land, buildings, and facilities	508,500	506,500	351,143	155,357
Repairs and maintenance	125,500	117,500	90,709	26,791
Supplies and materials	487,335	511,826	530,504	(18,678)
Scholarships awarded	-	-	7,500	(7,500)
Capital outlays	112,600	216,320	168,917	47,403
Debt service:				
Principal	15,458	15,458	15,458	-
Interest	1,805	1,805	1,805	-
TOTAL EXPENDITURES	<u>7,350,213</u>	<u>7,423,499</u>	<u>7,121,462</u>	<u>302,037</u>
NET CHANGE IN FUND BALANCE	(191,745)	-	351,784	351,784
FUND BALANCE, BEGINNING OF YEAR	<u>1,986,710</u>	<u>1,986,710</u>	<u>1,986,710</u>	-
FUND BALANCE, END OF YEAR	<u>\$ 1,794,965</u>	<u>\$ 1,986,710</u>	<u>\$ 2,338,494</u>	<u>\$ 351,784</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 20, 2017

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the governmental fund, and the aggregate remaining fund information of the Sussex Academy of Arts & Sciences ("the School"), Georgetown, Delaware, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Sussex Academy of Arts & Sciences' basic financial statements, and have issued our report thereon dated September 20, 2017.

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 of Arts & Sciences

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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