



FIRST STATE MILITARY ACADEMY
(A Component Unit of the State of Delaware)
CLAYTON, DELAWARE

FINANCIAL STATEMENTS

JUNE 30, 2021

FIRST STATE MILITARY 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, 2021

Board of Directors
First State Military Academy
Clayton, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the First State Military Academy ("the Academy"), Clayton, Delaware, a component unit of the State of Delaware, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Academy'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.

Board of Directors
First State Military Academy

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.

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 and each major fund of the First State Military Academy, Clayton, Delaware, as of June 30, 2021, 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 on Summarized Comparative Information

We have previously audited the First State Military Academy's June 30, 2020 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund in our report dated September 29, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 through 11, and the budgetary comparison schedule - general fund, schedule of the Academy's proportionate share of the net pension liability, schedule of Academy pension contributions, schedule of the Academy's proportionate share of the net OPEB liability, and schedule of Academy OPEB contributions on pages 37 through 41 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.

Board of Directors
First State Military Academy

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - governmental funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - governmental funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - governmental funds are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2021, on our consideration of the Academy'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Academy's internal control over financial reporting and compliance.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST STATE MILITARY ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

This discussion and analysis of the financial performance of the First State Military Academy ("the Academy") provides an overview of the Academy's financial activities for the year ended June 30, 2021. Please read it in conjunction with the independent auditor's report and the Academy's financial statements.

FINANCIAL HIGHLIGHTS

The Academy's net position decreased by \$885,076, resulting in a net deficit of \$7,620,780 as of June 30, 2021.

The most significant assets reported by the Academy are capital assets totaling \$5,423,183 and account for 70.43 percent of the Academy's total assets. Renovation activity in prior years has resulted in a majority of the Academy's assets being capital assets. These capital improvement activities were funded through loans made available under the Community Facilities Loans and Grants program operated by the United States Department of Agriculture, which provides funding to non-profit organizations and other entities in rural areas for the construction or improvement of community facilities. The loan balances related to this project at June 30, 2021 was \$6,734,779 and represent 32.45 percent of the Academy's total liabilities. The Academy's proportionate share of the net pension liability decreased from the prior year to \$1,619,820, representing a decrease of \$61,805 from the prior year. The Academy's proportionate share of the net OPEB liability also increased from the prior year to \$11,711,185, representing an increase of \$3,332,845 from the prior year. These increases are based on an increase in the Academy's proportionate share of the net pension liability and the net OPEB liability as the Academy grows and increases its staff base, as well as a decrease in the funded status of the State of Delaware's pension plan.

USING THIS ANNUAL FINANCIAL REPORT

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

REPORTING THE ACADEMY AS A WHOLE

The Statement of Net Position and Statement of Activities

One of the most important questions asked about the Academy's finances is, "Is the Academy 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 Academy as a whole and about its activities in a manner that helps to

FIRST STATE MILITARY ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Academy's net position and the changes in net position. The change in net position provides the reader with a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment stability and facility conditions in arriving at a conclusion regarding the overall health of the Academy.

REPORTING THE ACADEMY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

This analysis of the Academy's major funds and fund financial statements provides detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State statute, while other funds are established by the Academy to help manage money for particular purposes and compliance with various grant provisions.

Governmental Funds

The Academy's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual accounting method, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Academy's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the Academy's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

ENTITY-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 Academy, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$7,620,780 at the close of the fiscal year. A summary of the Academy's statement of net position follows:

FIRST STATE MILITARY ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

**Table 1
NET POSITION**

	Governmental Activities	
	2021	2020
ASSETS		
Current and other assets:		
Cash and pooled cash	\$ 2,255,670	\$ 1,316,277
Accounts receivables	21,127	7,128
Total Current Assets	<u>2,276,797</u>	<u>1,323,405</u>
Noncurrent assets:		
Land	94,290	94,290
Construction-in-progress	100,000	-
Capital assets, net of depreciation	5,228,893	5,485,813
Total Noncurrent Assets	<u>5,423,183</u>	<u>5,580,103</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	1,119,872	1,183,466
Deferred outflows - OPEB	6,084,651	4,595,260
Total Deferred Outflows of Resources	<u>7,204,523</u>	<u>5,778,726</u>
LIABILITIES		
Current liabilities:		
Accounts payable	34,048	43,174
Accrued salaries and related costs	632,538	586,710
Accrued interest	15,435	15,693
Loans payable	115,610	112,475
Due to related party	7,055	7,055
Total Current Liabilities	<u>804,686</u>	<u>765,107</u>
Noncurrent liabilities:		
Loans payable	6,619,169	6,734,779
Net pension liability	1,619,820	1,681,625
Net OPEB liability	11,711,185	8,378,340
Total Noncurrent Liabilities	<u>19,950,174</u>	<u>16,794,744</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	286,332	12,343
Deferred inflows - OPEB	1,484,091	1,845,744
Total Deferred Inflows of Resources	<u>1,770,423</u>	<u>1,858,087</u>
NET DEFICIT		
Net investment in capital assets	(1,311,596)	(1,267,151)
Unrestricted deficit	(6,309,184)	(5,468,553)
Total Net Deficit	<u>\$ (7,620,780)</u>	<u>\$ (6,735,704)</u>

FIRST STATE MILITARY ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

The Academy uses capital assets to provide services; consequently, these assets are not available for future spending.

Table 2
CHANGES IN NET POSITION

	Governmental Activities	
	2021	2020
REVENUES		
General revenues:		
Charges to school districts	\$ 1,325,656	\$ 1,212,665
Payments from primary government	4,728,904	4,715,474
Interest income	21,558	37,149
Miscellaneous	285,346	176,135
Program revenues:		
Charges for services	82,135	165,333
Operating grants and contributions	838,002	227,867
Total Revenues	<u>7,281,601</u>	<u>6,534,623</u>
EXPENSES		
Instructional services	6,802,161	5,814,051
Support services:		
Operation and maintenance of facilities	386,894	467,054
Transportation	628,012	601,343
Food service	162,967	221,627
Interest payments on long-term debt	186,643	189,241
Total Expenses	<u>8,166,677</u>	<u>7,293,316</u>
CHANGE IN NET DEFICIT	<u>\$ (885,076)</u>	<u>\$ (758,693)</u>

Governmental Activities

Net position of the Academy decreased by \$885,076, and unrestricted net position reflects a deficit balance of \$6,309,184. The decrease in overall net position is largely the result of increases in the Academy's net pension and OPEB liabilities outpacing capital asset and other asset additions.

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

FIRST STATE MILITARY ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

that include charges to school districts, interest earnings, and state entitlements must support the net cost of the Academy's programs.

	2021 Services		2020 Services	
	Total Cost	Net Cost (Revenue)	Total Cost	Net Cost (Revenue)
Governmental Activities:				
Instructional services	\$ 6,802,161	\$ 5,939,065	\$ 5,814,051	\$ 5,543,366
Support services:				
Operation and maintenance of facilities	386,894	386,894	467,054	467,054
Transportation	628,012	628,012	601,343	601,343
Food service	162,967	105,926	221,627	99,112
Interest payments on long-term debt	186,643	186,643	189,241	189,241
TOTAL	\$ 8,166,677	\$ 7,246,540	\$ 7,293,316	\$ 6,900,116

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$7,246,540 of support, as well as general revenues comprising 87.48 percent of total revenues.

THE ACADEMY'S FUNDS

The Academy's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$1,603,156. The schedule below indicates the fund balances and their composition at year end for the fiscal years ended June 30, 2021 and 2020.

	2021	2020
Fund Balances:		
Assigned - capital projects	\$ 159,313	\$ 51,200
Unassigned	1,443,843	635,266
Governmental Funds	\$ 1,603,156	\$ 686,466

Governmental Funds

During fiscal year 2021, the Academy's fund balances increased by \$916,690. This increase is due primarily to the Academy's revenues exceeding current year expenditures. The table that follows assists in illustrating the financial activities and balance of governmental funds.

FIRST STATE MILITARY ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

	Total Governmental Funds	
	2021	2020
REVENUES:		
Charges to school districts	\$ 1,325,656	\$ 1,212,665
State aid	4,728,904	4,715,474
Federal aid	737,994	227,867
Interest income	21,558	37,149
Food service	31,497	57,684
Contributions	100,008	-
School programs	50,638	107,649
Other revenues	285,346	176,135
TOTAL REVENUES	7,281,601	6,534,623
EXPENDITURES:		
Current:		
Instruction	4,735,624	4,208,127
Operation and maintenance of facilities	364,264	435,069
Transportation	628,012	601,343
Food service	162,967	221,627
Capital outlays:		
Property and equipment	174,668	85,503
Debt service:		
Principal	112,475	82,746
Interest	186,901	332,361
TOTAL EXPENDITURES	6,364,991	5,966,776
EXCESS OF REVENUES OVER EXPENDITURES	916,690	567,847
FUND BALANCES, BEGINNING OF YEAR	686,466	118,619
FUND BALANCES, END OF YEAR	\$ 1,603,156	\$ 686,466

General Fund

The Academy's General Fund reported a fund balance of \$1,443,843, which is an increase from the prior year of \$808,577. The increase was primarily the result of additional federal grant revenue.

Capital Projects Fund

As of June 30, 2021, the Academy had a capital projects fund balance of \$159,313. This was an increase of \$51,200 from the prior year. The Academy pays for its loan obligations out of this fund. The Academy reported expenditures of \$345,606 in 2020 - 2021. These expenditures were primarily related to debt service payments.

FIRST STATE MILITARY ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

GENERAL FUND BUDGET INFORMATION

The Academy's budget is prepared on the modified accrual basis of accounting. The most significant budgeted fund is the general fund. The Academy may amend its revenue and expenditure estimates periodically due to changing conditions. The original budget was amended during fiscal year 2021 due primarily to changes in the expectation of future costs encountered in its operations.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 37.

Revenues

Other Local Revenues

A favorable variance of \$188,209 is recognized due to more revenue coming in from reimbursements than expected.

Food Service Revenues

An unfavorable variance of \$106,064 is recognized as a result of classes moving online due to the COVID-19 pandemic.

Expenditures

Contractual Services

An unfavorable variance of \$27,708 is recognized as a result of operating and maintenance contracts being more than expected.

Travel

A favorable variance of \$154,601 is recognized as a result of classes moving online due to the COVID-19 pandemic.

Supplies and Materials

A favorable variance of \$328,474 is primarily a result of expenditures for classroom supplies and materials being less than expected because of classes moving online due to the COVID-19 pandemic.

Property

An unfavorable variance of \$101,150 is primarily due to capital purchases for paving not being budget for in the current year.

FIRST STATE MILITARY ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

Equipment

An unfavorable variance of \$73,518 is primarily due to capital purchases of computer equipment not being budget for in the current year.

CAPITAL ASSETS

The Academy has a deficit balance of \$1,311,596 in net investment in capital assets. Capital additions for the current year totaled \$173,519 related to the purchase of furniture and equipment. Depreciation expense for the year ended June 30, 2021 was \$330,439. Detailed information regarding capital asset activity is included in Note 3 to the financial statements.

DEBT ADMINISTRATION

As of June 30, 2021, the Academy had total outstanding debt of \$6,734,779 in the form of two loans payable to the United States Department of Agriculture under the Community Facilities Loans and Grants program. The Academy had no other debt at year end. More detailed information regarding this loan can be found in Note 4 to the financial statements.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

The financial model the Academy has developed is based on the funding formula currently in effect under the Delaware Charter School Law. If the funding formula for charter schools changes, adjustments to the underlying assumptions of the model will have to be made.

As a result of the spread of the COVID-19 coronavirus which is ongoing at June 30, 2021, economic and operational uncertainties have arisen which may impact the Academy in fiscal year 2022. While the Academy has fully resumed in-class learning, there continues to be uncertainty regarding the potential for another resurgence of the virus, which may require another period of remote or hybrid learning. The extent of the potential impact is unknown as the COVID-19 pandemic continues to develop.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, investors, and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Academy office at (302) 223-2150.

BASIC FINANCIAL STATEMENTS

**FIRST STATE MILITARY ACADEMY
STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020**

	Governmental Activities	
	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and pooled cash	\$ 2,255,670	\$ 1,316,277
Accounts receivable	21,127	7,128
Total Current Assets	<u>2,276,797</u>	<u>1,323,405</u>
NONCURRENT ASSETS:		
Land	94,290	94,290
Construction-in-progress	100,000	-
Depreciable capital assets, net	5,228,893	5,485,813
Total Noncurrent Assets	<u>5,423,183</u>	<u>5,580,103</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	1,119,872	1,183,466
Deferred outflows - OPEB	6,084,651	4,595,260
Total Deferred Outflows of Resources	<u>7,204,523</u>	<u>5,778,726</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 14,904,503</u>	<u>\$ 12,682,234</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 34,048	\$ 43,174
Accrued salaries and related costs	632,538	586,710
Accrued interest	15,435	15,693
Due to related party	7,055	7,055
Loans payable	115,610	112,475
Total Current Liabilities	<u>804,686</u>	<u>765,107</u>
NONCURRENT LIABILITIES:		
Loans payable	6,619,169	6,734,779
Net pension liability	1,619,820	1,681,625
Net OPEB liability	11,711,185	8,378,340
Total Noncurrent Liabilities	<u>19,950,174</u>	<u>16,794,744</u>
TOTAL LIABILITIES	<u>20,754,860</u>	<u>17,559,851</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	286,332	12,343
Deferred inflows - OPEB	1,484,091	1,845,744
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,770,423</u>	<u>1,858,087</u>
NET DEFICIT:		
Net investment in capital assets	(1,311,596)	(1,267,151)
Unrestricted deficit	(6,309,184)	(5,468,553)
TOTAL NET DEFICIT	<u>(7,620,780)</u>	<u>(6,735,704)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT	<u>\$ 14,904,503</u>	<u>\$ 12,682,234</u>

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

FIRST STATE MILITARY ACADEMY STATEMENT OF ACTIVITIES

	Program Revenues			Net (Expense) Revenue and Changes in Net Deficit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ (6,802,161)	\$ 50,638	\$ 812,458	\$ -	\$ (5,543,366)
Support services:					
Operation and maintenance of facilities	(386,894)	-	-	-	(467,054)
Transportation	(628,012)	-	-	-	(601,343)
Food service	(162,967)	31,497	25,544	-	(99,112)
Interest on long-term debt	(186,643)	-	-	-	(189,241)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (8,166,677)</u>	<u>\$ 82,135</u>	<u>\$ 838,002</u>	<u>\$ -</u>	<u>(6,900,116)</u>
GENERAL REVENUES					
Charges to school districts				1,325,656	1,212,665
Payments from primary government				4,728,904	4,715,474
Interest income				21,558	37,149
Other local revenue				285,346	176,135
TOTAL GENERAL REVENUES				<u>6,361,464</u>	<u>6,141,423</u>
CHANGE IN NET DEFICIT				(885,076)	(758,693)
NET DEFICIT, BEGINNING OF YEAR				(6,735,704)	(5,977,011)
NET DEFICIT, END OF YEAR				\$ (7,620,780)	\$ (6,735,704)

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

FIRST STATE MILITARY ACADEMY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2021
(With Summarized Comparative Data for June 30, 2020)

	General Fund	Capital Projects Fund	Totals	
			2021	2020
ASSETS				
Cash and pooled cash	\$ 2,091,357	\$ 164,313	\$ 2,255,670	\$ 1,316,277
Accounts receivable	21,127	-	21,127	7,128
TOTAL ASSETS	<u>\$ 2,112,484</u>	<u>\$ 164,313</u>	<u>\$ 2,276,797</u>	<u>\$ 1,323,405</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 34,048	\$ -	\$ 34,048	\$ 43,174
Accrued salaries and related costs	632,538	-	632,538	586,710
Due to related party	2,055	5,000	7,055	7,055
TOTAL LIABILITIES	<u>668,641</u>	<u>5,000</u>	<u>673,641</u>	<u>636,939</u>
 FUND BALANCES:				
Assigned	-	159,313	159,313	51,200
Unassigned	1,443,843	-	1,443,843	635,266
TOTAL FUND BALANCES	<u>1,443,843</u>	<u>159,313</u>	<u>1,603,156</u>	<u>686,466</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,112,484</u>	<u>\$ 164,313</u>	<u>\$ 2,276,797</u>	<u>\$ 1,323,405</u>

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

**FIRST STATE MILITARY ACADEMY
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2021**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,603,156
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net position.	5,423,183
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Accrued interest	\$ (15,435)	
Loan payable	(6,734,779)	
Net pension liability	(1,619,820)	
Net OPEB liability	(11,711,185)	(20,081,219)

Deferred inflows and outflows related to the Academy'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 Academy's amount of the net pension liability, changes in assumptions, differences between actual and expected experience, and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows - pension	1,119,872	
Deferred inflows - pension	(286,332)	833,540

Deferred inflows and outflows related to the Academy'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 Academy's amount of the net OPEB liability, changes in assumptions, differences between actual and expected experience, 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 outflows - OPEB	6,084,651	
Deferred inflows - OPEB	(1,484,091)	4,600,560

TOTAL NET DEFICIT - GOVERNMENTAL ACTIVITIES	\$ (7,620,780)
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The accompanying notes are an integral part of these financial statements.

FIRST STATE MILITARY ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021
(With Summarized Comparative Data for the Year Ended June 30, 2020)

	General Fund	Capital Projects Fund	Totals	
			2021	2020
REVENUES				
Charges to school districts	\$ 1,325,656	\$ -	\$ 1,325,656	\$ 1,212,665
State aid	4,728,904	-	4,728,904	4,715,474
Federal aid	737,994	-	737,994	227,867
Interest income	21,523	35	21,558	37,149
Food service revenue	31,497	-	31,497	57,684
Contributions and donations	-	100,008	100,008	-
School programs	50,638	-	50,638	107,649
Other local revenue	231,046	54,300	285,346	176,135
TOTAL REVENUES	7,127,258	154,343	7,281,601	6,534,623
EXPENDITURES				
Current:				
Instruction	4,735,624	-	4,735,624	4,208,127
Operation and maintenance of facilities	318,034	46,230	364,264	435,069
Transportation	628,012	-	628,012	601,343
Food service	162,967	-	162,967	221,627
Capital outlays:				
Property	101,149	-	101,149	-
Equipment	73,519	-	73,519	85,503
Debt service:				
Principal	-	112,475	112,475	82,746
Interest	-	186,901	186,901	332,361
TOTAL EXPENDITURES	6,019,305	345,606	6,364,911	5,966,776
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,107,953	(191,263)	916,690	567,847
OTHER FINANCING SOURCES (USES)				
Interfund transfers	(299,376)	299,376	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(299,376)	299,376	-	-
NET CHANGE IN FUND BALANCES	808,577	108,113	916,690	567,847
FUND BALANCE, BEGINNING OF YEAR	635,266	51,200	686,466	118,619
FUND BALANCE, END OF YEAR	\$ 1,443,843	\$ 159,313	\$ 1,603,156	\$ 686,466

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

**FIRST STATE MILITARY ACADEMY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 916,690
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 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	\$ 173,519	
Depreciation expense	<u>(330,439)</u>	(156,920)

Debt proceeds are reported as financing sources in the governmental funds and, thus, contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.	112,475
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	258
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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 in the statement of activities based on the measurement date, whereas pension expenditures are recognized in the governmental funds when made to the plan.	(275,778)
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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 Academy'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.	<u>(1,481,801)</u>
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CHANGE IN NET DEFICIT - GOVERNMENTAL ACTIVITIES	<u><u>\$ (885,076)</u></u>
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The accompanying notes are an integral part of these financial statements.

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

The First State Military Academy ("the Academy") 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. The Academy's initial charter was 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 Academy have been prepared in conformity with accounting principles generally accepted in the United States of America 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 Academy are described below.

Reporting Entity

The Academy is the primary 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 Academy 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 Academy. 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.

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, 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 Academy are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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 Academy 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 Academy receives cash.

The Academy reports the following major governmental funds:

- **General Fund** – The general fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.
- **Capital Projects Fund** – The capital projects fund accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodeling of facilities, and procurement of equipment necessary for providing educational programs for all students within the Academy.

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

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

Receivables and Payables

The Academy 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 land, buildings, building improvements, and furniture and equipment, are reported in the entity-wide financial statements. The Academy defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Such assets are recorded at historical 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.

Buildings and building improvements are depreciated using the straight-line method over the estimated useful lives of the related assets. Furniture and equipment of the Academy are depreciated using the straight-line method over the estimated useful lives of the related assets. The Academy generally uses the following estimated useful lives:

Buildings and improvements	40 years
Furniture and equipment	5 - 7 years

Long-term Obligations

In the entity-wide financial statements, long-term debt is reported as liabilities. In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Deferred Inflows and 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 Academy reports as deferred outflows pension and OPEB contributions subsequent to the measurement date of the net pension and OPEB liabilities and certain other items which represent differences related to changes in the net pension and OPEB liabilities which will be amortized over future periods.

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

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

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 Academy reports as deferred inflows certain items which represent differences related to changes in the net pension and OPEB liabilities which will be amortized over future periods.

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

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

Unassigned – all other spendable amounts.

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

Net position represents the difference between assets and liabilities. The net investment 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 Academy or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Any

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

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

remaining portions of net position are reflected as unrestricted. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first and then unrestricted resources as they are needed.

Income Tax Status

The Academy 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 Academy 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)(2). The Academy 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 accounting principles generally accepted in the United States of America 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.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the Academy's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America and, therefore, should be read in conjunction with the Academy's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

NOTE 2 CASH AND POOLED CASH

At June 30, 2021, the Academy had a cash and pooled cash balance of \$2,255,670. Of that amount, \$2,091,357 was 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 pooled cash in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the Academy, but the credit risk cannot be categorized for these funds.

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND POOLED CASH (cont'd)

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, 2021, the reported amount of the Academy's deposits outside of the State Treasurer's Office was \$164,313. The bank balance at June 30, 2021 was \$164,313, all of which was covered by federal depository insurance.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Governmental Activities:</i>				
General capital assets not being depreciated:				
Land	\$ 94,290	\$ -	\$ -	\$ 94,290
Construction in progress	-	100,000	-	100,000
Total general capital assets not being depreciated	<u>94,290</u>	<u>100,000</u>	<u>-</u>	<u>194,290</u>
General capital assets being depreciated:				
Buildings and improvements	5,659,637	-	-	5,659,637
Furniture and equipment	1,270,385	73,519	-	1,343,904
Total general capital assets being depreciated	6,930,022	73,519	-	7,003,541
Accumulated depreciation	1,444,209	330,439	-	1,774,648
Total general capital assets being depreciated, net	<u>5,485,813</u>	<u>(256,920)</u>	<u>-</u>	<u>5,228,893</u>
Governmental Activities, Net	<u>\$ 5,580,103</u>	<u>\$ (156,920)</u>	<u>\$ -</u>	<u>\$ 5,423,183</u>

Depreciation expense was charged to the following governmental activities:

Instructional services	\$ 307,809
Operation and maintenance of facilities	<u>22,630</u>
	<u>\$ 330,439</u>

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM LIABILITIES

Construction Loans

The Academy obtained financing from the United States Department of Agriculture ("USDA") in the amount of \$6,300,000 to finance the renovations to several of the Academy's buildings and to acquire equipment necessary for school operations. The loan is collateralized by all assets of the Academy. The loan is dated September 1, 2016, and bears interest at 2.75 percent for a term of 40 years. Interest only is payable annually on September 1 beginning September 1, 2017 through September 1, 2019. Thereafter, payments of principal and interest are due monthly on the first of each month in the amount of \$22,680 until the principal of the loan is repaid.

\$ 6,122,525

The Academy has also obtained financing from the USDA in the amount of \$630,000 to finance the renovations of another building. The loan is collateralized by all assets of the Academy. The loan is dated September 1, 2016, and bears interest at 2.75 percent for a term of 40 years. Interest only is payable annually on September 1 beginning September 1, 2017 through September 1, 2019. Thereafter, payments of principal and interest are due monthly on the first of each month in the amount of \$2,268 until the principal of the loan is repaid.

612,254

Total Governmental Activities

\$ 6,734,779

The total principal and interest maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 115,610	\$ 183,766	\$ 299,376
2023	118,828	180,548	299,376
2024	122,139	177,237	299,376
2025	125,539	173,837	299,376
2026	129,035	170,341	299,376
2027 - 2031	701,121	795,759	1,496,880
2032 - 2036	804,343	692,537	1,496,880
2037 - 2041	922,757	574,123	1,496,880
2042 - 2046	1,058,606	438,274	1,496,880
2047 - 2051	1,214,456	282,424	1,496,880
2052 - 2056	1,393,252	103,628	1,496,880
2057	<u>29,093</u>	<u>78</u>	<u>29,171</u>
Total	<u>\$ 6,734,779</u>	<u>\$ 3,772,552</u>	<u>\$ 10,507,331</u>

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM LIABILITIES (cont'd)

Interest expense was \$186,643 for the year ended June 30, 2021.

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

	Amounts Outstanding 07/01/2020	Additions	Retirements	Amounts Outstanding 06/30/2021	Due Within One Year
Governmental Activities:					
Loans payable	\$ 6,847,254	\$ -	\$ 112,475	\$ 6,734,779	\$ 115,610
Net pension liability	1,681,625	-	61,805	1,619,820	-
OPEB liability	8,378,340	3,332,845	-	11,711,185	-
Total Governmental Activities	<u>\$ 16,907,219</u>	<u>\$3,332,845</u>	<u>\$ 174,280</u>	<u>\$20,065,784</u>	<u>\$ 115,610</u>

Payments of loans payable are expected to be funded by the capital projects fund. Payments of other long-term liabilities are expected to be funded by the general fund.

NOTE 5 RELATED PARTY TRANSACTIONS

The Academy has been advanced funds, interest free, by one of its founding Board members for the initial deposit on the purchase of the school land and buildings, as well as for various initial start-up costs. The funds are to be repaid on demand. As of June 30, 2021, the Academy owed the Board member \$7,055.

NOTE 6 FUND BALANCES

As of June 30, 2021, the Academy's fund balances are composed of the following:

	General Fund	Capital Projects Fund	Total Governmental Funds
Assigned – capital projects	\$ -	\$ 159,313	\$ 159,313
Unassigned	<u>1,443,843</u>	<u>-</u>	<u>1,443,843</u>
Total Fund Balances	<u>\$ 1,443,843</u>	<u>\$ 159,313</u>	<u>\$ 1,603,156</u>

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LEASING ARRANGEMENTS

Operating Lease

The Academy leases its copier equipment under an operating lease arrangement with an expiration date of June 2021. Total rental expense for the year ended June 30, 2021 was \$10,257.

The Academy leases its copier equipment under an operating lease arrangement with an expiration date of June 2024. This lease is set to start July 2021.

At June 30, 2021, the minimum future rental payments under noncancelable leasing arrangements for the remaining period and in the aggregate are as follows:

Year Ending December 31,

2022	\$ 3,396
2023	3,396
2024	<u>3,396</u>
Total	<u>\$ 10,188</u>

NOTE 8 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, 2021. For a more complete description, please refer to the Delaware Employees' Pension Plan Comprehensive Annual Financial Report. Separately issued financial statements for the Plan may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904; by calling 1-800-722-7300; or by visiting the PERS website at www.delawarepensions.com.

Plan Description and Eligibility

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

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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.

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.

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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, 2021, the rate of the employer contribution was 12.33 percent of covered payroll. The Academy's contribution to PERS for the year ended June 30, 2021 was \$339,757.

PRI Contribution

All reporting units participating in the State PERS make contributions to a PRI fund which accumulates resources to fund ad hoc postretirement 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 Resources

At June 30, 2021, the Academy reported a liability of \$1,619,820 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2019 to June 30, 2020. The Academy'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, 2020, the Academy's proportionate share of the net pension liability was 0.1152 percent, which was an increase of 0.0072 percent from its proportion measured as of June 30, 2020.

For the year ended June 30, 2021, the Academy recognized pension expense of \$615,535. At June 30, 2021, the Academy reported deferred inflows and outflows of resources related to pensions from the following sources:

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 281,466
Changes of assumptions	113,471	-
Differences between actual and expected experience	211,167	4,866
Changes in proportions	455,477	-
Contributions subsequent to the date of measurement	<u>339,757</u>	<u>-</u>
	<u>\$ 1,119,872</u>	<u>\$ 286,332</u>

An amount of \$339,757 is reported as deferred outflows of resources resulting from the Academy's contributions subsequent to the measurement date of June 30, 2020 and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022. 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:

Years Ending June 30,

2022	\$ 69,015
2023	110,661
2024	131,485
2025	72,633
2026	<u>109,989</u>
	<u>\$ 493,783</u>

Actuarial Assumptions

The total pension liability as of the June 30, 2020 measurement date was determined by an actuarial valuation as of June 30, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. These actuarial valuations used the following actuarial assumptions, applied to all periods:

- Investment return/discount rate – 7.0 percent, including inflation of 2.5 percent
- Salary increases – 2.5 percent + merit increases, including inflation of 2.5 percent
- Cost-of-living adjustments – ad hoc

FIRST STATE MILITARY ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

The total pension liabilities are measured based on assumptions pertaining to interest rates, inflation rates, and employee demographic behavior in future years. 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 RP-2014 tables with gender adjustments for healthy annuitants and disabled retirees, and 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%	28.5%
International equity	5.7%	15.2%
Fixed income	2.0%	28.8%
Alternative investments	7.8%	23.0%
Cash and equivalents	0.0%	4.5%

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

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 PENSION PLAN (cont'd)

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 Academy'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 Discount Rate 7.0%	1% Increase 8.0%
Academy's proportionate share of the net pension liability	\$ 3,110,077	\$ 1,619,820	\$ 363,997

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 9 OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description and Eligibility

The State of Delaware Employees' Other Postemployment Benefits ("OPEB") Fund Trust ("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.

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Contributions

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, 2021, the rate of the employer contribution was 11.80 percent of covered payroll. The Academy's contribution to the Plan for the year ended June 30, 2021 was \$325,222.

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

At June 30, 2021, the Academy reported a liability of \$11,711,185 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by rolling forward the Plan's total OPEB liability as of June 30, 2019 to June 30, 2020. The Academy'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, 2020, the Academy's proportion was 0.1125 percent, which was an increase of 0.0074 percent from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Academy recognized OPEB expense of \$1,807,023. At June 30, 2021, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 13,010
Changes in proportions	3,438,993	-
Changes in assumptions	1,980,395	666,061
Net difference between expected and actual experience	340,041	805,020
Contributions subsequent to the date of measurement	325,222	-
	<u>\$6,084,651</u>	<u>\$1,484,091</u>

An amount of \$325,222 is reported as deferred outflows of resources resulting from the Academy's contributions subsequent to the measurement date of June 30, 2020 and will be

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to OPEB and will be recognized in OPEB expense as follows:

Year Ending June 30,

2022	\$ 666,429
2023	671,026
2024	890,187
2025	965,635
2026	<u>1,082,061</u>
	<u>\$4,275,338</u>

Actuarial Assumptions

The total OPEB liability as of the June 30, 2020 measurement date was determined by an actuarial valuation as of June 30, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. These actuarial valuations used the following actuarial assumptions:

- Discount rate – 2.21 percent
- Salary increases – 3.25 percent + merit
- Healthcare cost trend rates – 5.60 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 reflected by applying a custom projection scale on a generational basis to adjusted base tables from the base year.

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 used to measure the total OPEB liability was 3.50 percent at the beginning of the current measurement period and 2.21 percent at the end based on the Bond Buyer GO 20-

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Bond Municipal Bond Index. 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 discount rate used at the June 30, 2020 measurement date is 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 Academy'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 2.21 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 (1.21 percent) or one percentage point higher (3.21 percent) than the current rate.

	1% Decrease 1.21%	Current Discount Rate 2.21%	1% Increase 3.21%
Academy's proportionate share of the net OPEB liability	\$ 14,038,356	\$ 11,711,185	\$ 9,892,867

Sensitivity of the Academy'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 5.6 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 (4.6 percent) or one percentage point higher (6.6 percent) than the current rate.

	1% Decrease 4.6%	Current Healthcare Trend Rate 5.6%	1% Increase 6.6%
Academy's proportionate share of the net OPEB liability	\$ 10,989,217	\$ 11,711,185	\$ 12,812,269

Plan Fiduciary Net Position

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

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 10 RISK MANAGEMENT

The Academy 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 Academy. Insurance settlements have not exceeded insurance coverage in any of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE 11 UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus which is ongoing at June 30 2021, economic and operational uncertainties have arisen which may impact the Academy in fiscal year 2022. While the Academy has fully resumed in-class learning, there continues to be uncertainty regarding the potential for another resurgence of the virus, which may require another period of remote or hybrid learning. The extent of the potential impact is unknown as the COVID-19 pandemic continues to develop.

Grants

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

NOTE 12 EXCESS EXPENDITURES OVER APPROPRIATIONS

The Academy overspent budgetary appropriations in the following categories:

Salaries	\$	164,637
Contractual services	\$	27,708
Transportation – buses	\$	6,961
Property	\$	101,150
Equipment	\$	73,518

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

NOTE 13 DEFICIT NET POSITION

For governmental activities, the net deficit amount of \$7,620,780 includes the effect of deferring the recognition of pension and OPEB contributions made subsequent to the measurement date

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 13 DEFICIT NET POSITION (cont'd)

of the net pension and OPEB liabilities, and the deferred outflows related to the pension and OPEB plans. This is offset by the Academy's actuarially determined net pension and OPEB liabilities, and the deferred inflows related to the pension and OPEB plans.

NOTE 14 INTERFUND TRANSFER

During the fiscal year ended June 30, 2021, the Academy made an interfund transfer totaling \$299,376 from the general fund to the capital projects fund for the purpose of funding debt service.

NOTE 15 SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through September 28, 2021, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**FIRST STATE MILITARY ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 1,191,534	\$ 1,191,534	\$ 1,325,656	\$ 134,122
State aid	4,698,922	4,698,922	4,728,904	29,982
Federal aid	805,319	805,319	737,994	(67,325)
Interest income	37,108	37,108	21,523	(15,585)
Food service revenue	137,561	137,561	31,497	(106,064)
Contributions and donations	3,442	3,442	-	(3,442)
School programs	101,069	101,069	50,638	(50,431)
Other local revenue	42,837	42,837	231,046	188,209
TOTAL REVENUES	<u>7,017,792</u>	<u>7,017,792</u>	<u>7,127,258</u>	<u>109,466</u>
EXPENDITURES				
Current:				
Salaries	2,792,505	2,792,505	2,957,142	(164,637)
Employment costs	1,348,694	1,348,694	1,333,595	15,099
Travel	154,601	154,601	-	154,601
Contractual services	385,645	385,645	413,353	(27,708)
Communications	39,861	39,861	28,042	11,819
Public utilities service	73,370	73,370	68,954	4,416
Insurance	85,834	85,834	52,920	32,914
Transportation - buses	620,844	620,844	627,805	(6,961)
Repairs and maintenance	114,078	114,078	64,449	49,629
Supplies and materials	626,851	626,851	298,377	328,474
Capital outlays:				
Property	-	-	101,150	(101,150)
Equipment	-	-	73,518	(73,518)
TOTAL EXPENDITURES	<u>6,242,283</u>	<u>6,242,283</u>	<u>6,019,305</u>	<u>222,978</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>775,509</u>	<u>775,509</u>	<u>1,107,953</u>	<u>332,444</u>
OTHER FINANCING SOURCES (USES)				
Refund of prior year revenue	(675)	(675)	-	675
Interfund transfers	(299,480)	(299,480)	(299,376)	104
TOTAL OTHER FINANCING USES	<u>(300,155)</u>	<u>(300,155)</u>	<u>(299,376)</u>	<u>779</u>
NET CHANGE IN FUND BALANCE	<u>475,354</u>	<u>475,354</u>	<u>808,577</u>	<u>333,223</u>
FUND BALANCE, BEGINNING OF YEAR	<u>635,266</u>	<u>635,266</u>	<u>635,266</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,110,620</u>	<u>\$ 1,110,620</u>	<u>\$ 1,443,843</u>	<u>\$ 333,223</u>

NOTE: The Academy's budget is presented on the modified accrual basis of accounting.

FIRST STATE MILITARY ACADEMY
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021

PROPORTIONATE SHARE OF NET PENSION LIABILITY	MEASUREMENT DATE					
	JUNE 30, 2020	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2017	JUNE 30, 2016	JUNE 30, 2015
Academy's proportion of the net pension liability	0.1152%	0.1080%	0.0927%	0.0666%	0.0406%	0.0019%
Academy's proportion of the net pension liability - dollar value	\$ 1,619,820	\$ 1,681,625	\$ 1,197,220	\$ 977,015	\$ 611,392	\$ 12,322
Academy's covered employee payroll	\$ 2,484,139	\$ 2,241,293	\$ 1,840,557	\$ 1,298,288	\$ 773,768	\$ 34,540
Academy's proportionate share of the net pension liability as a percentage of its covered employee payroll	65.21%	75.03%	65.05%	75.25%	79.01%	35.67%
Plan fiduciary net position as a percentage of the total pension liability	87.27%	85.41%	87.49%	85.31%	84.11%	92.67%
						95.80%

Note: The above information is presented as of the Plan's measurement date.

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.

**FIRST STATE MILITARY ACADEMY
SCHEDULE OF ACADEMY PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2021**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2021</u>	<u>JUNE 30, 2020</u>	<u>JUNE 30, 2019</u>	<u>JUNE 30, 2018</u>	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 339,757	\$ 297,103	\$ 265,145	\$ 191,786	\$ 124,376	\$ 74,127	\$ -
Contributions in relation to the contractually required contribution	339,757	297,103	265,145	191,786	124,376	74,127	-
Contribution excess	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Academy's covered employee payroll	\$ 2,755,531	\$ 2,484,139	\$ 2,241,293	\$ 1,840,557	\$ 1,298,288	\$ 773,768	\$ -
Contributions as a percentage of covered employee payroll	12.33%	11.96%	11.83%	10.42%	9.58%	9.58%	0.00%

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.

FIRST STATE MILITARY ACADEMY
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021

<u>PROPORTIONATE SHARE OF NET OPEB LIABILITY</u>	<u>MEASUREMENT DATE</u>			
	<u>JUNE 30, 2020</u>	<u>JUNE 30, 2019</u>	<u>JUNE 30, 2018</u>	<u>JUNE 30, 2017</u>
Academy's proportion of the net OPEB liability	0.1125%	0.1051%	0.0904%	0.0651%
Academy's proportion of the net OPEB liability - dollar value	\$ 11,711,185	\$ 8,378,340	\$ 7,418,173	\$5,376,130
Academy's covered employee payroll	\$ 2,484,139	\$ 2,241,293	\$ 1,840,557	\$1,298,288
Academy's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	471.44%	373.82%	403.04%	414.09%
Plan fiduciary net position as a percentage of the total OPEB liability	4.27%	4.89%	4.44%	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.

**FIRST STATE MILITARY ACADEMY
SCHEDULE OF ACADEMY OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2021**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2021</u>	<u>JUNE 30, 2020</u>	<u>JUNE 30, 2019</u>	<u>JUNE 30, 2018</u>
Contractually required contribution	\$ 325,222	\$ 310,816	\$ 264,218	\$ 202,957
Contributions in relation to the contractually required contribution	<u>325,222</u>	<u>310,816</u>	<u>264,218</u>	<u>202,957</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered employee payroll	\$ 2,755,531	\$ 2,484,139	\$ 2,241,293	\$ 1,840,557
Contributions as a percentage of covered employee payroll	11.80%	12.51%	11.79%	11.03%

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

**FIRST STATE MILITARY ACADEMY
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2021
FOR THE YEAR ENDED JUNE 30, 2021**

	State Allocation	Local Funding	Federal Funding	Total
ASSETS				
Cash and pooled cash	\$ 313,933	\$ 1,777,424	\$ -	\$ 2,091,357
Accounts receivable	-	-	21,127	21,127
TOTAL ASSETS	<u>\$ 313,933</u>	<u>\$ 1,777,424</u>	<u>\$ 21,127</u>	<u>\$ 2,112,484</u>
LIABILITIES AND FUND BALANCES (DEFICIT)				
LIABILITIES:				
Accounts payable	\$ 28,878	\$ 5,170	\$ -	\$ 34,048
Accrued salaries and related costs	-	611,411	21,127	632,538
Due to related party	-	2,055	-	2,055
TOTAL LIABILITIES	<u>28,878</u>	<u>618,636</u>	<u>21,127</u>	<u>668,641</u>
FUND BALANCES:				
Unassigned	285,055	1,158,788	-	1,443,843
TOTAL FUND BALANCES	<u>285,055</u>	<u>1,158,788</u>	<u>-</u>	<u>1,443,843</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 313,933</u>	<u>\$ 1,777,424</u>	<u>\$ 21,127</u>	<u>\$ 2,112,484</u>

FIRST STATE MILITARY ACADEMY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

	General Fund			Total
	State Allocation	Local Funding	Federal Funding	
REVENUES				
Charges to school districts	-	\$ 1,325,656	\$ -	\$ 1,325,656
State aid	4,728,904	-	-	4,728,904
Federal aid	-	-	712,450	712,450
Interest income	-	21,523	-	21,523
Food service revenue	-	31,497	25,544	57,041
School programs	-	50,638	-	50,638
Other local revenues	-	231,046	-	231,046
TOTAL REVENUES	<u>4,728,904</u>	<u>1,660,360</u>	<u>737,994</u>	<u>7,127,258</u>
EXPENDITURES				
Current:				
Instruction	3,185,224	837,950	712,450	4,735,624
Operation and maintenance of facilities	295,402	22,632	-	318,034
Transportation	485,347	142,665	-	628,012
Food services	83,507	53,916	25,544	162,967
Capital outlays:				
Property	101,149	-	-	101,149
Equipment	-	73,519	-	73,519
TOTAL EXPENDITURES	<u>4,150,629</u>	<u>1,130,682</u>	<u>737,994</u>	<u>6,019,305</u>
OTHER FINANCING USES				
Transfer in/(out)	(299,376)	(8,374)	8,374	(299,376)
NET CHANGE IN FUND BALANCES (DEFICIT)				
	278,899	521,304	8,374	808,577
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>6,156</u>	<u>637,484</u>	<u>(8,374)</u>	<u>635,266</u>
FUND BALANCES, END OF YEAR	<u>\$ 285,055</u>	<u>\$ 1,158,788</u>	<u>\$ -</u>	<u>\$ 1,443,843</u>

**FIRST STATE MILITARY ACADEMY
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

EXPENDITURES

Current:

Salaries	\$ 2,957,142
Employment costs	1,333,595
Contractual services	459,583
Communications	28,042
Public utilities service	68,954
Insurance	52,920
Transportation - buses	627,805
Repairs and maintenance	64,449
Supplies and materials	298,377

Capital outlays:

Property	101,150
Equipment	73,518

Debt service:

Principal	112,475
Interest	186,901

TOTAL EXPENDITURES

\$ 6,364,911



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, 2021

Board of Directors
First State Military Academy
Clayton, 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 and each major fund of the First State Military Academy ("the Academy"), Clayton, Delaware, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 28, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
First State Military Academy

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 entity'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Academy'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and recommendations as item 2018-001.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

FIRST STATE MILITARY ACADEMY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

2018-001

DEBT COVENANT NONCOMPLIANCE

Condition

During our audit for the year ended June 30, 2018, we noted that the Academy has not been compliant with debt covenant requirements related to the refinancing of outstanding construction loans originally held by NCALL, Inc. with the USDA under the Community Facilities Loans and Grants program. The two covenants state that the Academy must deposit funds on a monthly basis into two reserve accounts to meet the future debt service payments.

Criteria

Management should identify and be compliant with all debt covenant requirements.

Effect

Failure to comply with debt covenant requirements could result in the note being callable by the USDA, which could negatively impact the operations of the Academy.

Questioned Costs

This finding does not result in questioned costs.

Cause

Oversight by the Academy's staff and Board of Directors.

Recommendation

We recommended that the Academy implement policies or procedures that will enable them to comply with the debt covenant requirements listed above and review all agreements to verify that they are in compliance with all other covenants.

Status

During our current year audit, we noted that the transfers were not made to fund the reserve accounts. Therefore, this finding is still applicable for the current year.

FIRST STATE MILITARY ACADEMY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None.