



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

FINANCIAL STATEMENTS

JUNE 30, 2025

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

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
Entity-wide Financial Statements:	
Statements of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	17
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to Statement of Activities	18
Notes to Financial Statements	19
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	38
Schedule of the Academy's Proportionate Share of the Net Pension Liability	39
Schedule of Academy Pension Contributions	40
Schedule of the Academy's Proportionate Share of the Net OPEB Liability	41
Schedule of Academy OPEB Contributions	42

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

TABLE OF CONTENTS

	<u>PAGE</u>
SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - General Fund	43
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - General Fund	44
Schedule of Expenditures by Natural Classification - Governmental Funds	45
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 <i>Government Auditing Standards</i>	46
Schedule of Findings and Recommendations	48



INDEPENDENT AUDITOR'S REPORT

October 13, 2025

Board of Directors
First State Military Academy
Clayton, Delaware

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2025, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements 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, 2025, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Academy's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles general accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for twelve months beyond the financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy's ability to continue as a going concern for a reasonable period of time.

Board of Directors
First State Military Academy

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Academy's 2024 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund in our report dated October 23, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, 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 38 through 42 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.

Supplementary 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

Board of Directors
First State Military Academy

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 October 13, 2025, 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, 2025. Please read it in conjunction with the independent auditor's report and the Academy's financial statements.

FINANCIAL HIGHLIGHTS

The Academy's net position increased by \$207,810, resulting in a net deficit of \$11,452,411 as of June 30, 2025.

The most significant assets reported by the Academy are capital assets totaling \$5,096,832 and account for 72.88% 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, 2025 was \$6,252,663 and represent 34.16% of the Academy's total liabilities. The Academy's proportionate share of the net pension liability decreased from the prior year to \$1,885,129, this represented a \$273,641 change from the prior year. The Academy's proportionate share of the net OPEB liability decreased from the prior year to \$9,462,982, representing a decrease of \$1,500,587 from the prior year. These changes are based on a decrease 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 \$11,452,411 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	
	2025	2024
ASSETS		
Current and other assets:		
Cash and pooled cash	\$ 1,867,935	\$ 1,518,393
Accounts receivables	28,652	28,222
Total Current Assets	<u>1,896,587</u>	<u>1,546,615</u>
Noncurrent assets:		
Land	94,290	94,290
Capital assets, net of depreciation	<u>5,002,542</u>	<u>5,053,600</u>
Total Noncurrent Assets	<u>5,096,832</u>	<u>5,147,890</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension	1,403,844	1,699,246
Deferred outflows - OPEB	<u>2,595,272</u>	<u>3,680,962</u>
Total Deferred Outflows of Resources	<u>3,999,116</u>	<u>5,380,208</u>
LIABILITIES		
Current liabilities:		
Accrued salaries and related costs	679,477	609,454
Accrued interest	14,330	14,618
Loans payable	129,035	125,539
Due to related party	<u>7,055</u>	<u>7,055</u>
Total Current Liabilities	<u>829,897</u>	<u>756,666</u>
Noncurrent liabilities:		
Loan payable	6,123,628	6,252,663
Net pension liability	1,885,129	2,158,770
Net OPEB liability	<u>9,462,982</u>	<u>10,963,569</u>
Total Noncurrent Liabilities	<u>17,471,739</u>	<u>19,375,002</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension	106,316	-
Deferred inflows - OPEB	<u>4,036,994</u>	<u>3,603,266</u>
Total Deferred Inflows of Resources	<u>4,143,310</u>	<u>3,603,266</u>
NET DEFICIT		
Net investment in capital assets	(1,155,831)	(1,230,312)
Unrestricted deficit	<u>(10,296,580)</u>	<u>(10,429,909)</u>
Total Net Deficit	<u>\$(11,452,411)</u>	<u>\$(11,660,221)</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	
	2025	2024
REVENUES		
General revenues:		
Charges to school districts	\$ 1,165,647	\$ 1,161,194
Payments from primary government	5,467,790	4,882,844
Interest income	103,828	77,254
Miscellaneous	369,487	306,716
Program revenues:		
Charges for services	81,492	76,903
Operating grants and contributions	544,560	563,890
Total Revenues	<u>7,732,804</u>	<u>7,068,801</u>
EXPENSES		
Instructional services	4,913,710	5,467,525
Support services:		
Operation and maintenance of facilities	1,491,714	1,516,260
Transportation	670,369	685,540
Food service	275,652	263,308
Interest payments on long-term debt	173,549	177,008
Total Expenses	<u>7,524,994</u>	<u>8,109,641</u>
CHANGE IN NET DEFICIT	<u>\$ 207,810</u>	<u>\$ (1,040,840)</u>

Governmental Activities

Net position of the Academy increased by \$207,810 and unrestricted net position reflects a deficit balance of \$10,296,580. The decrease in overall net position is largely the result of decreases in the Academy's net pension liability and related deferred inflows 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

FIRST STATE MILITARY ACADEMY

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

services after taking into account the program revenues for governmental activities. General revenues that include charges to school districts, interest earnings, and state entitlements must support the net cost of the Academy's programs.

	2025 Services		2024 Services	
	Total Cost	Net Cost (Revenue)	Total Cost	Net Cost (Revenue)
Governmental Activities:				
Instructional services	\$ 4,913,710	\$ 4,470,308	\$ 5,467,525	\$ 5,037,705
Support services:				
Operation and maintenance of facilities	1,491,714	1,491,714	1,516,260	1,516,260
Transportation	670,369	670,369	685,540	685,540
Food service	275,652	93,002	263,308	52,335
Interest payments on long-term debt	173,549	173,549	177,008	177,008
TOTAL	\$ 7,524,994	\$ 6,898,942	\$ 8,109,641	\$ 7,468,848

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$6,898,842 of support, as well as general revenues comprising 91.90% of total revenues.

THE ACADEMY'S FUNDS

The Academy's governmental funds (as presented on the balance sheet) reported a combined fund balance of \$1,210,055. The schedule below indicates the fund balances and their composition at year end for the fiscal years ended June 30, 2025 and 2024.

	2025	2024
Fund Balances:		
Assigned - capital projects	\$ 77,834	\$ 74,968
Unassigned	1,132,221	855,138
Governmental Funds	\$ 1,210,055	\$ 930,106

Governmental Funds

During fiscal year 2025, the Academy's fund balances increased by \$279,949. 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	
	2025	2024
REVENUES:		
Charges to school districts	\$ 1,165,647	\$ 1,161,194
State aid	5,467,790	4,882,844
Federal aid	440,974	529,803
Interest income	103,828	77,254
Contributions	103,586	34,087
School programs	81,492	76,903
Other revenues	369,487	306,716
TOTAL REVENUES	<u>7,732,804</u>	<u>7,068,801</u>
EXPENDITURES:		
Current:		
Instruction	4,748,674	4,299,482
Operation and maintenance of facilities	1,435,989	1,496,674
Transportation	670,369	685,540
Food service	275,652	263,308
Capital outlays:		
Property and equipment	22,795	49,403
Debt service:		
Principal	125,539	125,486
Interest	173,837	177,287
TOTAL EXPENDITURES	<u>7,452,855</u>	<u>7,097,180</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	<u>279,949</u>	<u>(28,379)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>930,106</u>	<u>958,485</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,210,055</u>	<u>\$ 930,106</u>

General Fund

The Academy's general fund reported a fund balance of \$1,132,221, which is an increase from the prior year of \$277,083. The increase was primarily the result of increased state aid revenue.

Capital Projects Fund

As of June 30, 2025, the Academy had a capital projects fund balance of \$77,834. This was an increase of \$2,866 from the prior year. The Academy pays for its loan obligations out of this fund. The Academy reported expenditures of \$315,706 in 2024 - 2025. 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 following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 38.

Revenues

Other Local Revenues

A favorable variance of \$209,564 is recognized due to more revenue coming in from reimbursements than expected.

School Programs

An unfavorable variance of \$180,176 is recognized due to less school activities being held during the current year.

Contributions and Donations

A favorable variance of \$92,886 is recognized as a result of more donations being received in the current year than expected.

State Aid

A favorable variance of \$602,032 is recognized as a result of more state aid being received in the current year than due to the state trying to make teachers' pay more competitive.

Federal Revenue

An unfavorable variance of \$159,571 is recognized due to less revenue coming in from the federal government and timing of federal reimbursements.

Expenditures

Employment Costs

An unfavorable variance of \$129,248 is recognized as a result the staff raises.

Travel

An unfavorable variance of \$73,958 is recognized as a result of the need for travel and cost increases.

FIRST STATE MILITARY ACADEMY

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

Repairs and maintenance

An unfavorable variance of \$92,860 is primarily due to the Academy requiring more maintenance than expected.

Contractual Services

A favorable variance of \$355,290 is recognized as a result of operating and maintenance contracts being less than expected.

CAPITAL ASSETS

The Academy has \$5,096,832 invested in capital assets and right-to-use assets, net of depreciation/amortization. Capital additions for the current year totaled \$179,056. The additions related to the purchase of furniture and equipment, and buildings and improvements. Depreciation/amortization expense for the year ended June 30, 2025 was \$230,114. Detailed information regarding capital asset activity is included in Note 3 to the financial statements.

DEBT ADMINISTRATION

As of June 30, 2025, the Academy had total outstanding debt of \$6,252,663 in the form of two loans payable to the United States Department of Agriculture under the Community Facilities Loans and Grants program. 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.

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, 2025 AND 2024**

	Governmental Activities	
	2025	2024
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and pooled cash	\$ 1,867,935	\$ 1,518,393
Accounts receivable	28,652	28,222
Total Current Assets	<u>1,896,587</u>	<u>1,546,615</u>
NONCURRENT ASSETS:		
Land	94,290	94,290
Depreciable capital assets, net	5,002,542	5,053,600
Total Noncurrent Assets	<u>5,096,832</u>	<u>5,147,890</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows - pension	1,403,844	1,699,246
Deferred outflows - OPEB	2,595,272	3,680,962
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,999,116</u>	<u>5,380,208</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 10,992,535</u></u>	<u><u>\$ 12,074,713</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT		
CURRENT LIABILITIES:		
Accrued salaries and related costs	\$ 679,477	\$ 609,454
Accrued interest	14,330	14,618
Due to related party	7,055	7,055
Loans payable	129,035	125,539
Total Current Liabilities	<u>829,897</u>	<u>756,666</u>
NONCURRENT LIABILITIES:		
Loans payable	6,123,628	6,252,663
Net pension liability	1,885,129	2,158,770
Net OPEB liability	9,462,982	10,963,569
Total Noncurrent Liabilities	<u>17,471,739</u>	<u>19,375,002</u>
TOTAL LIABILITIES	<u>18,301,636</u>	<u>20,131,668</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows - pension	106,316	-
Deferred inflows - OPEB	4,036,994	3,603,266
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>4,143,310</u>	<u>3,603,266</u>
NET DEFICIT:		
Net investment in capital assets	(1,155,831)	(1,230,312)
Unrestricted deficit	(10,296,580)	(10,429,909)
TOTAL NET DEFICIT	<u>(11,452,411)</u>	<u>(11,660,221)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET DEFICIT	<u><u>\$ 10,992,535</u></u>	<u><u>\$ 12,074,713</u></u>

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

**FIRST STATE MILITARY ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025
(With Summarized Comparative Data for the Year Ended June 30, 2024)**

	Program Revenues				Net (Expense) Revenue and Changes in Net Deficit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Totals	
					2025	2024
GOVERNMENTAL ACTIVITIES						
Instructional services	\$ (4,913,710)	\$ 81,492	\$ 361,910	\$ -	\$ (4,470,308)	\$ (5,037,705)
Support services:						
Operation and maintenance of facilities	(1,491,714)	-	-	-	(1,491,714)	(1,516,260)
Transportation	(670,369)	-	-	-	(670,369)	(685,540)
Food service	(275,652)	-	182,650	-	(93,002)	(52,335)
Interest on long-term debt	(173,549)	-	-	-	(173,549)	(177,008)
TOTAL GOVERNMENTAL ACTIVITIES	\$ (7,524,994)	\$ 81,492	\$ 544,560	\$ -	(6,898,942)	(7,468,848)
GENERAL REVENUES						
Charges to school districts					1,165,647	1,161,194
Payments from primary government					5,467,790	4,882,844
Interest income					103,828	77,254
Other local revenue					369,487	306,716
TOTAL GENERAL REVENUES					7,106,752	6,428,008
CHANGE IN NET DEFICIT					207,810	(1,040,840)
NET DEFICIT, BEGINNING OF YEAR					(11,660,221)	(10,619,381)
NET DEFICIT, END OF YEAR					\$ (11,452,411)	\$ (11,660,221)

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

**FIRST STATE MILITARY ACADEMY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2025
(With Summarized Comparative Data for June 30, 2024)**

	General Fund	Capital Projects Fund	Totals 2025	2024
ASSETS				
Cash and pooled cash	\$ 1,785,101	\$ 82,834	\$ 1,867,935	\$ 1,518,393
Accounts receivable	28,652	-	28,652	28,222
TOTAL ASSETS	<u>\$ 1,813,753</u>	<u>\$ 82,834</u>	<u>\$ 1,896,587</u>	<u>\$ 1,546,615</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accrued salaries and related costs	\$ 679,477	\$ -	\$ 679,477	\$ 609,454
Due to related party	2,055	5,000	7,055	7,055
TOTAL LIABILITIES	<u>681,532</u>	<u>5,000</u>	<u>686,532</u>	<u>616,509</u>
 FUND BALANCES:				
Assigned	-	77,834	77,834	74,968
Unassigned	1,132,221	-	1,132,221	855,138
TOTAL FUND BALANCES	<u>1,132,221</u>	<u>77,834</u>	<u>1,210,055</u>	<u>930,106</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,813,753</u>	<u>\$ 82,834</u>	<u>\$ 1,896,587</u>	<u>\$ 1,546,615</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, 2025**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 1,210,055
--	--	--------------

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/amortization as detailed in the footnotes are included in the statement of net position.		5,096,832
---	--	-----------

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	\$ (14,330)		
Loans payable	(6,252,663)		
Net pension liability	(1,885,129)		
Net OPEB liability	(9,462,982)		(17,615,104)

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	1,403,844		
Deferred inflows - pension	(106,316)		1,297,528

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	2,595,272		
Deferred inflows - OPEB	(4,036,994)		(1,441,722)

TOTAL NET DEFICIT - GOVERNMENTAL ACTIVITIES		\$ (11,452,411)
---	--	-----------------

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, 2025
(With Summarized Comparative Data for the Year Ended June 30, 2024)

	General Fund	Capital Projects Fund	Totals	
			2025	2024
REVENUES				
Charges to school districts	\$ 1,165,647	\$ -	\$ 1,165,647	\$ 1,161,194
State aid	5,467,790	-	5,467,790	4,882,844
Federal aid	440,974	-	440,974	529,803
Interest income	99,382	4,446	103,828	77,254
Contributions and donations	103,586	-	103,586	34,087
School programs	81,492	-	81,492	76,903
Other local revenue	367,237	2,250	369,487	306,716
TOTAL REVENUES	<u>7,726,108</u>	<u>6,696</u>	<u>7,732,804</u>	<u>7,068,801</u>
EXPENDITURES				
Current:				
Instruction	4,748,674	-	4,748,674	4,299,482
Operation and maintenance of facilities	1,419,659	16,330	1,435,989	1,496,674
Transportation	670,369	-	670,369	685,540
Food service	275,652	-	275,652	263,308
Capital outlays:				
Property	7,665	-	7,665	128
Equipment	15,130	-	15,130	49,275
Debt service:				
Principal	-	125,539	125,539	125,486
Interest	-	173,837	173,837	177,287
TOTAL EXPENDITURES	<u>7,137,149</u>	<u>315,706</u>	<u>7,452,855</u>	<u>7,097,180</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>588,959</u>	<u>(309,010)</u>	<u>279,949</u>	<u>(28,379)</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers	(311,876)	311,876	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(311,876)</u>	<u>311,876</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	277,083	2,866	279,949	(28,379)
FUND BALANCE, BEGINNING OF YEAR	<u>855,138</u>	<u>74,968</u>	<u>930,106</u>	<u>958,485</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,132,221</u>	<u>\$ 77,834</u>	<u>\$ 1,210,055</u>	<u>\$ 930,106</u>

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, 2025**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 279,949
--	------------

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 lease agreements more than \$5,000 are recorded as right-to-use assets, and the cost is allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization in the current period.

Capital outlays	\$ 179,056	
Depreciation/amortization expense	<u>(230,114)</u>	(51,058)

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.	125,539
---	---------

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.	288
--	-----

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.	(128,077)
--	-----------

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>(18,831)</u>
--	-----------------

CHANGE IN NET DEFICIT - GOVERNMENTAL ACTIVITIES	<u><u>\$ 207,810</u></u>
---	--------------------------

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 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.

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

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Receivables and Payables

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

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

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

Capital Assets

Capital assets, which include land, buildings, building improvements, furniture and equipment, and right-to-use assets, 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. Right-to-use assets are defined as assets with term cost of more than \$5,000.

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. Right-to-use assets are amortized over the term of the lease. The Academy generally uses the following estimated useful lives:

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

Compensated Absences

The academy utilizes an unlimited PTO policy thus there is no need for a compensated absences liability.

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 Outflows and Inflows 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 and amortization, 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 remaining portions of net position are reflected as unrestricted. When both restricted and

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

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

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, 2024, from which the summarized information was derived.

NOTE 2 CASH AND POOLED CASH

At June 30, 2025, the Academy had a cash and pooled cash balance of \$1,867,935. Of that amount, \$1,785,101 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.

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

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND POOLED CASH (cont'd)

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, 2025, the reported amount of the Academy's deposits outside of the State Treasurer's Office was \$82,834. The bank balance at June 30, 2025 was \$82,834, all of which was covered by federal depository insurance.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2025 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental Activities:</i>				
General capital assets not being depreciated/amortized:				
Land	\$ 94,290	\$ -	\$ -	\$ 94,290
Total general capital assets not being depreciated/amortized	94,290	-	-	94,290
General capital assets being depreciated/amortized:				
Buildings and improvements	6,057,135	111,330	-	6,168,465
Furniture and equipment	1,639,450	67,726	-	1,707,176
Right-to-use assets	9,770	-	9,770	-
Total general capital assets being depreciated/amortized	7,706,355	179,056	-	7,875,641
Accumulated depreciation	2,642,985	230,114	-	2,873,099
Accumulated amortization	9,770	-	9,770	-
Total depreciation and amortization	2,652,755	230,114	-	2,873,099
Total general capital assets being depreciated/amortized, net	5,053,600	(51,058)	-	5,002,542
Governmental Activities, Net	\$ 5,147,890	\$ (51,058)	\$ -	\$ 5,096,832

Depreciation/amortization expense was charged to the following governmental activities:

Instructional services	\$ 174,389
Operation and maintenance of facilities	55,725
	<u>\$ 230,114</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% 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.

\$ 5,684,239

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% 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.

568,424

Total Governmental Activities

\$ 6,252,663

The total principal and interest maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 129,035	\$ 170,341	\$ 299,376
2027	132,628	166,748	299,376
2028	136,322	163,054	299,376
2029	140,119	159,257	299,376
2030	144,021	155,355	299,376
2031 - 2035	782,551	714,329	1,496,880
2036 - 2040	897,753	599,127	1,496,880
2041 - 2045	1,029,923	466,957	1,496,880
2046 - 2050	1,181,549	315,331	1,496,880
2051 - 2055	1,355,503	141,377	1,496,880
2056 - 2057	323,259	5,288	328,547
Total	<u>\$ 6,252,663</u>	<u>\$ 3,057,164</u>	<u>\$ 9,309,827</u>

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM LIABILITIES (cont'd)

Interest expense was \$173,549 for the year ended June 30, 2025.

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

	Amounts Outstanding 07/01/2024	Additions	Retirements	Amounts Outstanding 06/30/2025	Due Within One Year
Governmental Activities:					
Loans payable	\$ 6,378,202	\$ -	\$ 125,539	\$ 6,252,663	\$ 129,035
Net pension liability	2,158,770	-	273,641	1,885,129	-
OPEB liability	10,963,569	-	1,500,587	9,462,982	-
Total Governmental Activities	<u>\$ 19,500,541</u>	<u>\$ -</u>	<u>\$1,899,767</u>	<u>\$ 17,600,774</u>	<u>\$ 129,035</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, 2025, the Academy owed the Board member \$7,055.

NOTE 6 FUND BALANCES

As of June 30, 2025, the Academy's fund balances are composed of the following:

	General Fund	Capital Projects Fund	Total Governmental Funds
Assigned – capital projects	\$ -	\$ 77,834	\$ 77,834
Unassigned	<u>1,132,221</u>	<u>-</u>	<u>1,132,221</u>
Total Fund Balances	<u>\$ 1,132,221</u>	<u>\$ 77,834</u>	<u>\$ 1,210,055</u>

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 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 pension plan ("the State PERS") established in the Delaware Code. The Plan is administered by the Delaware Public Employees Retirement System ("DPERS").

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, 2024. For a more complete description, please refer to the Delaware Employees' Pension Plan Annual Comprehensive 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 (Pre-2012); 2) employees hired on or after January 1, 2012 (Post-2011); employees classified as correctional officers or specified peace officers.

Benefits Provided

Service Benefits

Final average monthly compensation (employees hired Post-2011 may not include overtime in pension compensation) multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997, plus final average monthly compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations.

Vesting

Pre-2012 date of hire: 5 years of credited service. Post-2011 date of hire: 10 years of credited service (5 of which must be consecutive).

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

Retirement

Pre-2012 date of hire: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age. Post-2011 date of hire: Age 65 with at least 10 years of credited service; at age 60 with 20 years of credited service; and 30 years of credited service at any age.

Disability Benefits

Pre-2012 date of hire: Same as Service Benefits. Employee must have 5 years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Post-2011 date of hire; in the Disability Insurance Program.

Survivor and Burial Benefits

If employee is receiving a pension, the eligible survivor receives 50% of pension (or 67.7% with 2% reduction of benefit, 75% with 3% reduction of benefit, or 100% with 6% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of pension the employee would have received at age 62.

Amount payable to a surviving spouse under age 50 at the time the survivor's pension begins shall be reduced for each month under 50 in accordance with actuarial tables approved by the Board. Any actuarial reduction for such a spouse shall, however, not apply for the period during which the spouse has in his or her care an unmarried child or children.

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

Contributions

Member Contributions

Employees hired Pre-2012 contribute 3% of earnings in excess of \$6,000. Employees hired Post-2011 contribute 5% of earnings in excess of \$6,000.

Employer Contributions

Employer contributions are determined by the Board. For the year ended June 30, 2025, the rate of the employer contribution was 12.43% of covered payroll. The Academy's contribution to PERS for the year ended June 30, 2025 was \$395,930.

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 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 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, 2025, the Academy reported an asset of \$1,885,129 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, 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, 2023 to June 30, 2024. 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, 2024, the Academy's proportionate share of the net pension liability was 0.1207%, which was a decrease of 0.0171% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the Academy recognized pension expense of \$524,007. At June 30, 2025, the Academy reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ 365,600	\$ -
Changes of assumptions	89,299	-
Differences between actual and expected experience	434,906	-
Changes in proportions	118,109	106,316
Contributions subsequent to the date of measurement	395,930	-
	<u>\$ 1,403,844</u>	<u>\$ 106,316</u>

An amount of \$395,930 is reported as deferred outflows of resources resulting from the Academy's contributions subsequent to the measurement date of June 30, 2024 and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2026. 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:

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

Years Ending June 30,

2026	\$ 51,955
2027	734,849
2028	55,662
2029	3,196
2030	<u>55,936</u>
	<u>\$ 901,598</u>

Actuarial Assumptions

The collective total pension liability as of the June 30, 2024 measurement date was determined by an actuarial valuation as of June 30, 2023, with update procedures used to roll forward the total pension liability to June 30, 2024. This actuarial valuation used the following actuarial assumptions:

- Investment rate of return/discount rate – 7.0%, including inflation of 2.5%
- Projected salary increases – 2.5% plus merit increases, including inflation of 2.5%
- Cost-of-living adjustments – 0.0%

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 assumptions are based on the Pub-2010 Mortality Tables with Gender Adjustments for Employees, Healthy Annuitants, and Disabled Retirees as well as an adjusted version on MP-2020 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

FIRST STATE MILITARY ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Asset Allocation</u>
Domestic equity	5.7%	33.6%
International equity	5.7%	13.9%
Fixed income	2.0%	25.3%
Alternative investments	7.8%	21.7%
Cash and equivalents	0.0%	5.5%

Discount Rate

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

	<u>1% Decrease 6.0%</u>	<u>Current Discount Rate 7.0%</u>	<u>1% Increase 8.0%</u>
Academy's proportionate share of the net pension liability	\$ 3,424,486	\$ 1,885,129	\$ 470,850

Pension Plan Fiduciary Net Position

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

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN

School employees are considered state employees and are covered under the State of Delaware Employees' Other Postemployment Benefits ("OPEB") Fund Trust ("the Plan"), which is a cost-sharing, multiple-employer defined benefit plan established 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 DPERS Board of Pension Trustees, which acts as the Board of Trustees ("the Board") for the Plan and is responsible for the financial management of the Plan.

The following are brief descriptions of the Plan in effect as of June 30, 2024. For a more complete description, please refer to the Delaware Public Employees' Retirement System Annual Comprehensive 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 <https://open.omb.delaware.gov/financials.shtml>.

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 5% of the Medicare Supplement offered by the State. Surviving spouses are eligible for coverage after a retiree's death.

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, 2025, the rate of the employer contribution was 23.35% of covered payroll. The Academy's contribution to the Plan for the year ended June 30, 2025 was \$743,882.

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

At June 30, 2025, the Academy reported a liability of \$9,462,982 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2024, and the total

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

OPEB liability used to calculate the net OPEB liability was determined by rolling forward the Plan's total OPEB liability as of June 30, 2023 to June 30, 2024. 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, 2024, the Academy's proportion was 0.1171%, which was a decrease of 0.0162% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, the Academy recognized OPEB expense of \$762,713. At June 30, 2025, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 9,849	\$ -
Expected and actual change differences	220,874	504,416
Changes in proportions	1,115,340	1,372,302
Changes in assumptions	505,327	2,160,276
Contributions subsequent to the date of measurement	<u>743,882</u>	<u>-</u>
	<u>\$ 2,595,272</u>	<u>\$ 4,036,994</u>

An amount of \$743,882 is reported as deferred outflows of resources resulting from the Academy's contributions subsequent to the measurement date of June 30, 2024 and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2026. 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,

2026	\$ (250,524)
2027	(628,214)
2028	(542,866)
2029	(545,856)
2030	(178,462)
Thereafter	<u>(39,682)</u>
	<u>\$ (2,185,604)</u>

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

Actuarial Assumptions

The collective total OPEB liability as of the June 30, 2024 measurement date was determined by an actuarial valuation as of June 30, 2023, and update procedures were used to roll forward the total OPEB liability to June 30, 2024. These actuarial valuations used the following actuarial assumptions:

- Discount rate – 4.46%
- Projected salary increases – 3.25% plus merit including inflation
- Investment rate of return – 7.00%, net of OPEB plan investment expense, including inflation
- Healthcare cost trend rates – Blended rate of 8.80% for 2023 decreasing to an ultimate rate of 3.94% for 2042
- Spousal coverage – 50% of employees will elect spouse coverage at retirement
- Percentage of retirees – 50% of employees not currently covered are expected to elect coverage before retirement. All employees are expected to remain in currently enrolled plans. The following retirees are expected to elect coverage:
 - 95% of employees with more than 20 years of service
 - 80% of employees with less than 20 years of service
 - 40% of current and future terminated vested employees
 - 100% of long-term disability participants

The Entry Age Actuarial Cost Method was used to value the Plan's actuarial liabilities and to set the normal cost. Under this method, the normal cost rate is the percentage of pay contribution which would be sufficient to fund the Plan's benefits if it were paid from each member's entry into the Plan until termination or retirement.

Mortality rates are based on the Sex-distinct Employee, Healthy Annuitant, and Disabled Annuitant Mortality Tables derived from the Pub-2010 General Benefits Weighted Annuitant Mortality Table, including adjustment facts. 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 assumptions pertaining to the interest rates, inflation rates, health costs, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study performed in 2021 and covering the period July 1, 2015 through June 30, 2020. 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 experience deviates, the larger the impact on future financial statements.

The long-term expected rate of return on OPEB plan investments was determined using building block method in which best-estimate ranges of expected future real rates of return (expected

FIRST STATE MILITARY ACADEMY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

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 of 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's current and expected asset allocation as of June 30, 2024 are summarized in the following table:

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

Discount Rate

The projection of cash flows used to determine the discount rate for June 30, 2024 assumed that employer contributions will be made at amounts equal to those outlined in Senate Bill 175 (at least 1% of the grand total of all State General Fund operating budget appropriations for the prior fiscal year) as well as 0.36% of covered payroll. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until approximately 2040. As such, projected benefit payments are discounted at the long-term expected return on assets of 7.00% to the extent the fiduciary net position is available to make the payments and the municipal bond rate of 3.93%, based on the Bond Buyer 20-Bond GO Index, thereafter to the extent they are not available. The resulting single equivalent rate used to determine the total OPEB liability as of June 30, 2024 was 4.46%.

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 4.46%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.46%) or one percentage point higher (5.46%) than the current rate.

	<u>1% Decrease 3.46%</u>	<u>Current Discount Rate 4.46%</u>	<u>1% Increase 5.46%</u>
Academy's proportionate share of the net OPEB liability	\$ 11,244,705	\$ 9,462,982	\$ 8,032,972

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN (cont'd)

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 8.80%, 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 (7.80%) or one percentage point higher (9.80%) than the current rate.

	1% Decrease 7.80%	Current Healthcare Trend Rate 8.80%	1% Increase 9.80%
Academy's proportionate share of the net OPEB liability	\$ 8,035,697	\$ 9,462,982	\$ 11,162,868

Plan Fiduciary Net Position

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

NOTE 9 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 10 UNCERTAINTIES

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.

FIRST STATE MILITARY ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 11 EXCESS EXPENDITURES OVER APPROPRIATIONS

The Academy overspent budgetary appropriations in the following categories:

Employment costs	\$	129,248
Travel	\$	73,958
Communications	\$	10,595
Public utilities service	\$	82
Repairs and maintenance	\$	92,860
Capital outlays – property	\$	7,665
Capital outlays – equipment	\$	37,957

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

NOTE 12 DEFICIT NET POSITION

For governmental activities, the unrestricted deficit amount of \$10,296,580 includes the effect of deferring the recognition of pension and OPEB contributions made subsequent to the measurement date 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 13 INTERFUND TRANSFER

During the fiscal year ended June 30, 2025, the Academy made an interfund transfer totaling \$311,876 from the general fund to the capital projects fund for the purpose of funding debt service.

NOTE 14 SUBSEQUENT EVENTS

The Academy has evaluated all subsequent events through October 13, 2025, 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, 2025**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 1,161,194	\$ 1,161,194	\$ 1,165,647	\$ 4,453
State aid	4,865,758	4,865,758	5,467,790	602,032
Federal aid	600,545	600,545	440,974	(159,571)
Contributions and donations	10,700	10,700	103,586	92,886
School programs	261,668	261,668	81,492	(180,176)
Other local revenue	157,673	157,673	367,237	209,564
TOTAL REVENUES	<u>7,057,538</u>	<u>7,057,538</u>	<u>7,726,108</u>	<u>668,570</u>
EXPENDITURES				
Current:				
Salaries	3,341,166	3,341,166	3,295,877	45,289
Employment costs	1,757,118	1,757,118	1,886,366	(129,248)
Travel	1,500	1,500	75,458	(73,958)
Contractual services	733,941	733,941	378,651	355,290
Communications	25,000	25,000	35,595	(10,595)
Public utilities service	69,695	69,695	69,777	(82)
Insurance	71,701	71,701	71,113	588
Transportation - buses	740,000	740,000	670,369	69,631
Repairs and maintenance	55,000	55,000	147,860	(92,860)
Supplies and materials	461,814	461,814	413,989	47,825
Student activities	48,000	48,000	46,472	1,528
Capital outlays:		-		
Property	-	-	7,665	(7,665)
Equipment	-	-	37,957	(37,957)
TOTAL EXPENDITURES	<u>7,304,935</u>	<u>7,304,935</u>	<u>7,137,149</u>	<u>167,786</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(247,397)</u>	<u>(247,397)</u>	<u>588,959</u>	<u>836,356</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers	(311,376)	(311,376)	(311,876)	(500)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(311,376)</u>	<u>(311,376)</u>	<u>(311,876)</u>	<u>(500)</u>
NET CHANGE IN FUND BALANCE	(558,773)	(558,773)	277,083	835,856
FUND BALANCE, BEGINNING OF YEAR	<u>855,138</u>	<u>855,138</u>	<u>855,138</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 296,365</u>	<u>\$ 296,365</u>	<u>\$ 1,132,221</u>	<u>\$ 835,856</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

PROPORTIONATE SHARE OF NET PENSION LIABILITY	MEASUREMENT DATE									
	JUNE 30, 2024	JUNE 30, 2023	JUNE 30, 2022	JUNE 30, 2021	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 (asset)	0.1207%	0.1378%	0.1339%	0.1261%	0.1152%	0.1080%	0.0927%	0.0666%	0.0406%	0.0019%
Academy's proportion of the net pension liability (asset) - dollar value	\$ 1,885,129	\$ 2,158,770	\$ 1,831,680	\$ (1,536,468)	\$ 1,619,820	\$ 1,681,625	\$ 1,197,220	\$ 977,015	\$ 611,392	\$ 12,322
Academy's covered employee payroll	\$ 3,176,405	\$ 3,332,009	\$ 3,088,080	\$ 2,755,531	\$ 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 (asset) as a percentage of its covered employee payroll	59.35%	64.79%	59.31%	-55.76%	65.21%	75.03%	65.05%	75.25%	79.01%	35.67%
Plan fiduciary net position as a percentage of the total pension liability (asset)	88.29%	87.60%	88.76%	110.48%	87.27%	85.41%	87.49%	85.31%	84.11%	92.67%

**FIRST STATE MILITARY ACADEMY
SCHEDULE OF ACADEMY PENSION CONTRIBUTIONS**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2025</u>	<u>JUNE 30, 2024</u>	<u>JUNE 30, 2023</u>	<u>JUNE 30, 2022</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>
Contractually required contribution	\$ 395,930	\$ 371,957	\$ 371,519	\$ 384,466	\$ 339,757	\$ 297,103	\$ 265,145	\$ 191,786	\$ 124,376	\$ 74,127
Contributions in relation to the contractually required contribution	<u>395,930</u>	<u>371,957</u>	<u>371,519</u>	<u>384,466</u>	<u>339,757</u>	<u>297,103</u>	<u>265,145</u>	<u>191,786</u>	<u>124,376</u>	<u>74,127</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered employee payroll	\$ 3,185,278	\$ 3,176,405	\$ 3,332,009	\$ 3,088,080	\$ 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	12.43%	11.71%	11.15%	12.45%	12.33%	11.96%	11.83%	10.42%	9.58%	9.58%

FIRST STATE MILITARY ACADEMY
SCHEDULE OF THE ACADEMY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

PROPORTIONATE SHARE OF NET OPEB LIABILITY	MEASUREMENT DATE							
	June 30, 2024	JUNE 30, 2023	JUNE 30, 2022	JUNE 30, 2021	JUNE 30, 2020	JUNE 30, 2019	JUNE 30, 2018	JUNE 30, 2017
Academy's proportion of the net OPEB liability	0.1171%	0.1333%	0.1297%	0.1218%	0.1125%	0.1051%	0.0904%	0.0651%
Academy's proportion of the net OPEB liability - dollar value	\$ 9,462,982	\$ 10,963,569	\$ 10,998,181	\$ 12,282,661	\$ 11,711,185	\$ 8,378,340	\$ 7,418,173	\$ 5,376,130
Academy's covered employee payroll	\$ 3,176,405	\$ 3,332,009	\$ 3,088,080	\$ 2,755,531	\$ 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	297.91%	329.04%	356.15%	445.75%	471.44%	373.82%	403.04%	414.09%
Plan fiduciary net position as a percentage of the total OPEB liability	10.59%	7.71%	-6.04%	-6.06%	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**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2025</u>	<u>JUNE 30, 2024</u>	<u>JUNE 30, 2023</u>	<u>JUNE 30, 2022</u>	<u>JUNE 30, 2021</u>	<u>JUNE 30, 2020</u>	<u>JUNE 30, 2019</u>	<u>JUNE 30, 2018</u>
Contractually required contribution	\$ 743,882	\$ 508,603	\$ 499,100	\$ 354,533	\$ 325,222	\$ 310,816	\$ 264,218	\$ 202,957
Contributions in relation to the contractually required contribution	<u>743,882</u>	<u>508,603</u>	<u>499,100</u>	<u>354,533</u>	<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>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's covered employee payroll	\$ 3,185,278	\$ 3,176,405	\$ 3,332,009	\$ 3,088,080	\$ 2,755,531	\$ 2,484,139	\$ 2,241,293	\$ 1,840,557
Contributions as a percentage of covered employee payroll	23.35%	16.01%	14.98%	11.48%	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, 2025**

	State Allocation	Local Funding	Federal Funding	Total
ASSETS				
Cash and pooled cash	\$ 70,421	\$ 1,714,680	\$ -	\$ 1,785,101
Accounts receivable	<u>-</u>	<u>-</u>	<u>28,652</u>	<u>28,652</u>
TOTAL ASSETS	<u><u>\$ 70,421</u></u>	<u><u>\$ 1,714,680</u></u>	<u><u>\$ 28,652</u></u>	<u><u>\$ 1,813,753</u></u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accrued salaries and related costs	\$ -	\$ 650,825	\$ 28,652	\$ 679,477
Due to related party	<u>-</u>	<u>2,055</u>	<u>-</u>	<u>2,055</u>
TOTAL LIABILITIES	<u>-</u>	<u>652,880</u>	<u>28,652</u>	<u>681,532</u>
 FUND BALANCES:				
Unassigned	70,421	1,061,800	-	1,132,221
TOTAL FUND BALANCES	<u>70,421</u>	<u>1,061,800</u>	<u>-</u>	<u>1,132,221</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 70,421</u></u>	<u><u>\$ 1,714,680</u></u>	<u><u>\$ 28,652</u></u>	<u><u>\$ 1,813,753</u></u>

FIRST STATE MILITARY ACADEMY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2025

	General Fund			
	State Allocation	Local Funding	Federal Funding	Total
REVENUES				
Charges to school districts	\$ -	\$ 1,165,647	\$ -	\$ 1,165,647
State aid	5,467,790	-	-	5,467,790
Federal aid	-	-	258,324	258,324
Interest income	-	99,382	-	99,382
Food service revenue	-	-	182,650	182,650
Contributions and donations	-	103,586	-	103,586
School programs	-	81,492	-	81,492
Other local revenues	-	367,237	-	367,237
TOTAL REVENUES	<u>5,467,790</u>	<u>1,817,344</u>	<u>440,974</u>	<u>7,726,108</u>
EXPENDITURES				
Current:				
Instruction	3,192,444	1,298,033	258,197	4,748,674
Operation and maintenance of facilities	1,164,407	255,125	127	1,419,659
Transportation	660,393	9,976	-	670,369
Food services	88,324	4,678	182,650	275,652
Capital outlays:				
Property	2,423	5,242	-	7,665
Equipment	13,492	1,638	-	15,130
TOTAL EXPENDITURES	<u>5,121,483</u>	<u>1,574,692</u>	<u>440,974</u>	<u>7,137,149</u>
OTHER FINANCING SOURCES (USES)				
Transfer in/(out)	(311,376)	(500)	-	(311,876)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(311,376)</u>	<u>(500)</u>	<u>-</u>	<u>(311,876)</u>
NET CHANGE IN FUND BALANCES	34,931	242,152	-	277,083
FUND BALANCES, BEGINNING OF YEAR	<u>35,490</u>	<u>819,648</u>	<u>-</u>	<u>855,138</u>
FUND BALANCES, END OF YEAR	<u>\$ 70,421</u>	<u>\$ 1,061,800</u>	<u>\$ -</u>	<u>\$ 1,132,221</u>

**FIRST STATE MILITARY ACADEMY
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2025**

EXPENDITURES

Current:

Salaries	\$ 3,295,877
Employment costs	1,886,366
Travel	75,458
Contractual services	394,981
Communications	35,595
Public utilities service	69,777
Insurance	71,113
Transportation - buses	670,369
Repairs and maintenance	147,860
Supplies and materials	413,989
Student activities	46,472

Capital outlays:

Property	7,665
Equipment	37,957

Debt service:

Principal	125,539
Interest	173,837

TOTAL EXPENDITURES	<u>\$ 7,452,855</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

October 13, 2025

Board of Directors
First State Military Academy
Wilmington, 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, 2025, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 13, 2025.

Report on 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") as a basis for designing 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.

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.

Board of Directors
First State Military Academy

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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Recommendations as item 2025-001.

The Academy's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Academy's response to the findings identified in our audit and described in the accompanying schedule of findings and recommendations. The Academy's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

FIRST STATE MILITARY ACADEMY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

2024-001

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 made to fund the reserve accounts. Therefore, this finding is no longer applicable.

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

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2025-001

DEBT COVENANT NONCOMPLIANCE

Condition

During our audit for the year ended June 30, 2025, we noted that the Academy has started making contributions to the two reserve accounts specified in the USDA Closing Document. These reserves are specifically for paying the cost of repairing or replacing any damage to the facility which may have been caused by catastrophe or making extensions or improvements to the facility. The first reserve account requires monthly deposits in the amount of \$226.80 until the reserve reaches \$27,216. The second reserve account requires monthly deposits of \$2,532.60 until the reserve reaches \$303,912.

We noted transfers this year of \$12,000, however we could not determine which reserve accounts they were for.

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 recommend that the Academy place these deposits into separate bank accounts, therefore the Academy can track the amounts that are accumulated and can be spent for the specific objectives. We also recommend the Academy make the correct payments as mentioned above in the condition.