

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
(A Component Unit of the State of Delaware)

**Financial Statements Together with
Reports of Independent Public Accountants**

For the Year Ended June 30, 2010



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2010

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the School Board Members
Providence Creek Academy Charter School, Inc.

We have audited the accompanying financial statements of the governmental activities, and the governmental funds information of Providence Creek Academy Charter School, Inc. (the School) as of and for the year ended June 30, 2010, which collectively comprise the Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental funds of the School as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2010, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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The Management's Discussion and Analysis and the Schedule of Revenue, Expenditures and Change in Fund Balance – Budget and Actual – General Fund, as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hunt Valley, Maryland
December 9, 2010



PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2010

Our discussion and analysis of the Providence Creek Academy Charter School, Inc. (the School) financial performance provides an overview of the School's financial activities for the year ended. This information should be read in conjunction with the Report of Independent Public Accountants and the School's financial statements.

Financial Highlights

The School's net assets decreased by \$498,142, and total \$968,233, as of June 30, 2010.

The primary changes in the School's Statement of Net Assets as of June 30, 2010, compared to June 30, 2009, is related to an increase in the completion of the capital assets project and the replacement of bond debt with a loan and related interest rate swap. The School's capital assets increased by approximately \$741,000 during the year ended as a result of the completion of the new school buildings and purchase of equipment and a vehicle.

Total revenue for the year (both general and program-related) increased by \$91,926 during the year ended June 30, 2010, compared to the year ended June 30, 2009, primarily due to increased revenue per student.

Total expenses for the year ended were \$6,385,591, an increase of \$1,014,551 compared to the prior year, primarily due to inflationary factors and expenses related to the new school building and fees related to the replacement of debt.

Using This Annual Financial Report

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

Reporting the School as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities to help answer this question. These two statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year revenue and expenses are taken into consideration regardless of when cash was received or paid.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2010

Reporting the School as a Whole (continued)

The Statement of Net Assets and Statement of Activities (continued)

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

Reporting the School's Governmental Funds

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

This discussion and analysis of the School's financial statements provides an overview of the School's financial activities for the year ended June 30, 2010, with the fiscal year 2009 data presented for comparative purposes. The emphasis of discussion about these statements is on the current-year activity. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis. There are four financial statements presented: the Statement of Net Assets; the Statement of Activities; Balance Sheet-Governmental Funds; and Statement of Revenue, Expenditures and Changes in Fund Balance-Governmental Funds.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2010

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the School as of the end of the fiscal year. This statement reflects a "point-of-time" financial picture. The purpose of the Statement of Net Assets is to present to the readers a fiscal "snapshot" of the School. The Statement of Net Assets helps answer the question "is the School as a whole financially better off or worse off as a result of the year's activities?" When revenue exceeds expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenue and expenses may be thought of as the School's operating results.

Net assets are divided into two major categories. The first category, invested in capital assets, provides the School's equity in capital assets owned by the School. The other category is unrestricted net assets, which are available to the School for use in any lawful purpose.

Government-Wide Financial Analysis

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. In the case of the School, assets exceeded liabilities by \$968,233 at the close of the year ended. Note that the invested in capital assets balance is reported net of related debt and accumulated depreciation. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

	<u>As of June 30,</u>	
	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets	\$ 2,193,333	\$ 5,016,188
Noncurrent assets	814,682	662,975
Capital assets, net	12,008,909	11,597,987
Total Assets	15,016,924	17,277,150
LIABILITIES		
Current liabilities	791,592	2,313,327
Noncurrent liabilities	13,257,099	13,497,448
Total Liabilities	14,048,691	15,810,775
NET ASSETS		
Invested in capital assets, net of related debt	(826,091)	2,124,485
Restricted net assets	22,895	3,676,498
Unrestricted	1,771,429	(4,334,608)
Total Net Assets	\$ 968,233	\$ 1,466,375

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2010

Government-Wide Financial Analysis (continued)

A portion of the School's net assets represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the School's ongoing activities.

	Governmental Activities For the Years Ended June 30,	
	2010	2009
Revenue		
General revenue:		
Charges to school districts	\$ 658,802	\$ 678,128
Payments from primary government	4,527,619	4,585,613
Other revenue	169,092	76,083
Program revenue:		
Charges for services	242,766	235,587
Operating grants and contributions	289,170	220,112
Total Revenue	5,887,449	5,795,523
Expenses		
Instructional services	3,441,381	3,244,015
Support service:		
Operation and maintenance of facilities	2,347,841	1,571,837
Transportation	345,288	313,547
School lunch services and other	251,081	241,641
Total Expenses	6,385,591	5,371,040
Changes in Net Assets	\$ (498,142)	\$ 424,483

Governmental Activities

Net assets of the School's governmental activities decreased in the current year by \$498,142 and unrestricted net assets reflect a positive balance of \$968,233. The unrestricted net asset balance is a result of investments made in capital assets. The increase in net assets is primarily the result of increased fees for students, effective cost management, and the purchase of property and equipment.

The School's Funds

The School's governmental funds (as presented on the balance sheet) reported a positive fund balance of \$1,642,719 as of June 30, 2010, compared to prior year's balance of \$2,730,361.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Management's Discussion and Analysis
June 30, 2010**

Governmental Funds

The School's fund balance increase is due to a variety of factors. The following table that follows assists in illustrating the financial activities and balance of governmental funds as of June 30, 2010 and 2009.

	For the Years Ended June 30,	
	2010	2009
Revenue		
Charges to school districts	\$ 658,802	\$ 678,128
State aid	4,527,619	4,585,613
Federal aid	289,170	220,112
Other sources	411,858	311,670
Total Revenue	5,887,449	5,795,523
Expenditures		
Program services:		
Instruction	3,441,381	3,411,286
Operation and maintenance of facilities	1,646,403	1,423,803
Transportation and other	596,369	555,188
Debt service:		
Principal	6,315,000	-
Interest	-	54,634
Issuance costs	194,739	662,975
Capital outlays:		
Buildings and equipment	781,199	8,960,286
Total Expenditures	12,975,091	15,068,172
Other Financing Source		
Debt proceeds	6,000,000	13,150,000
Net changes in fund balance	(1,087,642)	3,877,351
Fund (deficit) balance, beginning of year	2,730,361	(1,146,990)
Fund Balance (Deficit), End of Year	\$ 1,642,719	\$ 2,730,361

The fund balance of the School decreased by \$1,087,642 to \$1,642,619 as a result of debt replacement costs, redemption of the related bonds and amounts expended for capital assets.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2010

General Fund Budget Information

The School's budget is prepared on the cash basis of accounting. The School may amend its revenue and expenditure estimates periodically due to changing conditions. The budget was amended during fiscal year 2010.

Capital Assets

The School has invested \$12,008,909 in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled \$741,468 and depreciation expense was \$330,546.

Debt Administration

As of June 30, 2010, the School had approximately \$13,200,000 in bond issuances. During the year ended June 30, 2010, The School redeemed and replaced \$6,000,000 of the bonds with a USDA loan and also redeemed and additional \$315,000 of the bonds. Concurrent to the loan, the School entered into a fixed-rate interest rate swap to mitigate interest rate risk on the remaining \$6,835,000 of bonds payable which a floating interest rate. In addition to this the school also has a liability for an arbitrated settlement outstanding of \$275,000.

Other obligations include accrued vacation pay and sick leave for School employees. More detailed information about long-term liabilities are included in Note 6, 7 and 8 to the financial statements.

Economic Outlook/Factors Expected to Have an Effect on Future Operations

The School is primarily funded by the State of Delaware and local municipalities, and thus is affected by the economic outlook for the State and municipalities. The State and municipalities continue to support the funding of education.

The financial model the School 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.

Contact the School's Financial Management

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Charles Taylor, Managing Director at (302) 653-6276 or by writing 355 West Duck Road, Clayton, Delaware 19938.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Statement of Net Assets
As of June 30, 2010**

ASSETS

Current Assets

Amounts held by the State of Delaware	\$ 2,170,438
Restricted cash and cash equivalents	22,895
Total Current Assets	<u>2,193,333</u>

Noncurrent Assets

Deferred financing costs, net of amortization	814,682
Capital assets, net of depreciation	12,008,909

Total Assets	<u>15,016,924</u>
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LIABILITIES

Current Liabilities

Accrued salaries and related costs	466,641
Accrued expenses	185,978
Compensated absences, current portion	63,073
Accumulated arbitration settlement, current portion	75,900
Total Current Liabilities	<u>791,592</u>

Noncurrent Liabilities

Compensated absences	104,315
Bonds payable	6,835,000
Loan payable	6,000,000
Swap liability payable	97,784
Accumulated arbitration settlement	220,000
Total Noncurrent Liabilities	<u>13,257,099</u>

Total Liabilities	<u>14,048,691</u>
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NET ASSETS

Invested in capital assets, net of related debt	(826,091)
Restricted net assets	22,895
Unrestricted deficit	1,771,429
Total Net Assets	<u>\$ 968,233</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Statement of Activities
For the Year Ended June 30, 2010**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities:				
Instructional services	\$ 3,441,381	\$ -	289,170	\$ (3,152,211)
Supporting services:				
Operation and maintenance of facilities	2,347,841	-	-	(2,347,841)
Transportation	345,288	-	-	(345,288)
School lunch services and other	251,081	242,766	-	(8,315)
Total	<u>\$ 6,385,591</u>	<u>\$ 242,766</u>	<u>\$ 289,170</u>	<u>(5,853,655)</u>
 General Revenue:				
Charges to school districts				658,802
State aid not restricted to specific purposes				4,527,619
Other revenue				169,092
Total General Revenue				<u>5,355,513</u>
 Change in net assets				(498,142)
Net assets, beginning of year				1,466,375
Net Assets, End of Year				<u>\$ 968,233</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Balance Sheet – Governmental Funds
As of June 30, 2010**

ASSETS	General Fund	Capital Projects	Total
Amounts held by the State of Delaware	\$ 2,170,438	\$ -	\$ 2,170,438
Restricted cash and cash equivalents	22,895	-	22,895
Total Assets	2,193,333	-	2,193,333
LIABILITIES			
Accrued salaries and related costs	466,641	-	466,641
Compensated absences, current portion	63,073	-	63,073
Arbitration settlement	20,900	-	20,900
Total Liabilities	550,614	-	550,614
Fund Balance			
Unreserved	1,642,719	-	1,642,719
Total Liabilities and Fund Balance	\$ 2,193,333	\$ -	\$ 2,193,333

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Reconciliation of the Balance Sheet of
Governmental Funds to the Statement of Net Assets
As of June 30, 2010**

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Total Fund Balance – Governmental Funds	\$ 1,642,719
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$12,858,099 and the related accumulated depreciation is \$822,966.	12,008,909
Deferred financing costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.	814,682
Long-term debt liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(13,393,762)
Long-term compensated absence liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(104,315)
Total Net Assets – Governmental Activities	\$ 968,233

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Statement of Revenue, Expenditures and Changes in Fund Balance –
Governmental Funds
For the Year Ended June 30, 2010**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total</u>
Revenue			
State support	\$ 4,527,619	\$ -	\$ 4,527,619
Federal support	289,170	-	289,170
Charges to school districts	658,802	-	658,802
School lunch services – charges for services	242,766		242,766
Misc revenue	169,092	-	169,092
Total Revenue	<u>5,887,449</u>	<u>-</u>	<u>5,887,449</u>
Expenditures			
Program services:			
Instructional services	3,441,381	-	3,441,381
Supporting services:			
Operation and maintenance of facilities	1,646,403	-	1,646,403
Transportation	345,288	-	345,288
School lunch services and other	251,081	-	251,081
Capital outlays	-	781,199	781,199
Issuance costs	-	194,739	194,739
Debt service:			
Principal	-	6,315,000	6,315,000
Interest	-	-	-
Total Expenditures	<u>5,684,153</u>	<u>7,290,938</u>	<u>12,975,091</u>
Other Financing Sources (Uses)			
Transfers	592,644	(592,644)	-
Proceeds from issuance of debt	-	6,000,000	6,000,000
Total Other Financing Sources (Uses)	<u>592,644</u>	<u>5,407,356</u>	<u>6,000,000</u>
Net changes in fund balance	795,940	(1,883,582)	(1,087,642)
Fund balance (deficit), beginning of year	846,779	1,883,582	2,730,361
Fund Balance, End of Year	<u>\$ 1,642,719</u>	<u>\$ -</u>	<u>\$ 1,642,719</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Reconciliation of the Statement of Revenue, Expenditures and
Changes in Fund Balance – Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2010**

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

Net changes in fund balance – Governmental Funds	\$ (1,087,642)
 Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$766,928 exceeded depreciation of \$331,161.	 741,468
 Governmental funds report expenditures for the issuance of debt as expenditures. However, in the Statement of Activities, the cost is allocated over the life of the debt and is reported as interest expense. This is the amount by which the cost of \$209,010 exceeded amortization of \$21,516.	 173,223
 Decreased accruals reported in the Statement of Activities requires the use of current financial resources and are reported as expenditures in the funds but are not expenses in the Statements of Activities.	 (640,191)
 Governmental funds report principal payments as additional use in governmental activities.	 6,315,000
 Governmental funds report debt proceeds as additional source in governmental activities.	 <u>(6,000,000)</u>
 Change in Net Assets – Governmental Activities	 <u><u>\$ (498,142)</u></u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2010

1. DESCRIPTION OF THE ENTITY

Providence Creek Academy Charter School, Inc. (the School) was founded in 2002, and was established to provide students with an education focused on business and finance. The School is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is in substance, a part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all activities of the School.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific program. Program revenue include charges to students who purchase, use, or directly benefit from goods and services provided, and include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Grants and other revenue properly excluded from program revenue are reported as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenue in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by providers have been met.

The governmental funds financial statements are reported using the current financial resources measurement focus, and the modified accrual basis of accounting. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be available when they are collectible within the current period, or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenue to be available if they are collected within 60 days of the end of the current fiscal period.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

(continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The School reports two funds which are the general fund and capital projects fund (both are governmental fund types).

Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Amounts Held by the State of Delaware

This is cash that is held for the School and controlled by the State Treasurer's Office in Dover, Delaware (see Note 3).

Restricted Cash and Cash Equivalents

Cash equivalents are amounts of investments that have a maturity of less than 90 days. They consist predominantly of overnight sweep accounts that are secured with an investment in U.S. government funds.

Restricted cash and cash equivalents are restricted by the terms of the bond for debt service requirements.

Receivables

All receivables are due from other governmental agencies and are considered fully collectible and no allowance for bad debt has been provided. As of June 30, 2010, there were no receivables.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial individual cost of more than \$15,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost. 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 the life of the assets are not capitalized.

Furniture and equipment of the School are depreciated using the straight-line method over the estimated life of the assets, which range from five to seven years.

Debt Financing Costs

The School accounts for legal and other costs associated with the bond issuance as debt financing costs, the USDA loan and the interest rate swap agreement. These costs have been capitalized on the entity wide statements and will be amortized over the respective periods for the various debt instruments.

Interest Rate Swap Agreement

The School accounts for its interest rate swap contract in accordance with Governmental Accounting Standards Board Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*. The School uses the interest rate swap agreement principally to manage the risk that changes in interest rates have on its floating rate long-term debt.

The interest rate swap agreement is used to adjust a portion of total debt that is subject to variable interest rates. Under the interest rate swap agreement, the School agrees to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable rate of interest times the same notional principal amount. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract.

The School's interest rate swap agreement is considered to be a hedge against changes in the amount of future cash flows associated with the School's interest payments under its variable rate debt obligation. Accordingly, the interest rate swap agreement is reflected at fair value in the School's Statement of Net Assets and the related loss on this agreement recognized in the Statement of Activities.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

Vacation and sick pay including related payroll taxes are accrued when earned in the government-wide financial statements. The liability for such amounts is reported in the governmental fund as a result of employees' eligibility for retirement. As of June 30, 2010, no employees were eligible for retirement.

Vacation

Twelve-month employees can accumulate up to one half of the vacation days earned that year. Any excess days are dropped as of July 1st of each year. Employees are paid for one half of the accumulated unused vacation upon retirement at the current rate of pay.

Sick Leave

Sick leave allowances are as follows: 10 days for 10-month employees, 11 days for 11-month employees, and 12 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit without limit. Compensation for accumulated sick days is paid out at one half of the accumulated sick days up to 90 days upon retirement at the current rate of pay.

Subsequent Events

The School evaluated the accompanying financial statements for subsequent events and transactions through December 9, 2010, the date these statements were available for issue and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. AMOUNTS HELD BY THE STATE OF DELAWARE

As of June 30, 2010, the School had amounts held by the State of Delaware totaling \$2,170,438 and is part of an investment pool controlled by the State Treasurer's Office in Dover, Delaware. All investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at the time of purchase of one year or less are stated at cost or amortized cost.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2010

4. CASH AND CASH EQUIVALENTS

Policies and Practices

The School can invest in debt securities of the United States of America unless such an investment is expressly prohibited by law. Custodial credit risk for deposits is the risk that in the event of a bank failure, the School's deposits may not be returned or the School will not be able to recover collateral securities in the possession of an outside party. The School's policy requires deposits to be insured by FDIC. Collateral is to be held by an independent third party with whom the School has a current custodial agreement.

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 is as follows:

	<u>Balance</u> <u>July 01, 2009</u>	<u>Change</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets not being depreciated:			
Land	\$ 1,585,906	\$ -	\$ 1,585,906
Construction in progress	9,935,766	(9,935,766)	-
Capital assets being depreciated:			
Buildings	-	10,617,734	10,617,734
Vehicles	-	59,500	59,500
Furniture and equipment	568,120	-	568,120
Total Capital Assets	<u>12,089,792</u>	<u>741,468</u>	<u>12,831,260</u>
Less accumulated depreciation:			
Buildings	-	(243,323)	(243,323)
Vehicles	-	(10,908)	(10,908)
Furniture and equipment	(491,805)	(76,315)	(568,120)
Total Depreciation	<u>(491,805)</u>	<u>(330,546)</u>	<u>(822,351)</u>
Total Capital Assets, Net	<u>\$ 11,597,987</u>	<u>\$ 410,922</u>	<u>\$ 12,008,909</u>

Depreciation expense was \$330,546 for the year ended June 30, 2010, and is included in operation and maintenance of facilities in the Statement of Activities.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2010

6. DEBT

In 2009, the School issued bonds of \$13,150,000 for the construction of new school facilities. The bonds were secured by revenue from Kent County, Delaware. In December 2009, \$6,315,000 of the bonds were redeemed, and the School entered into a loan agreement with the United States Department of Agriculture in the amount of \$6,000,000. The outstanding balance of the loan payable was \$6 million as of June 30, 2010. The interest rate at June 30, 2010 was 4.25%.

In December 2009, the School entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its bonds payable. At June 30, 2010, the School had one outstanding interest rate swap agreement with a commercial bank (S&P A+ rated as of June 30, 2010), with a notional principal amount of \$6,835,000. This agreement effectively changes the School's interest rate exposure on the \$6,835,000 variable rate bond due through 2017 to a fixed 3.15% rate. The interest rate swap matures in April, 2017. The School is exposed to credit loss in the event of nonperformance by the counterparties to the interest rate swap agreement. However, the School does not anticipate nonperformance by the counterparties.

The bonds are remarketed on a periodic basis and are secured by a letter of credit. The letter of credit expires on April 30, 2017

Governmental Activity

\$13,000,000 2008A series bond issuance for the building of a new school facility, the amortization remains open until completion of the construction and are held at a variable weekly rate. During the year ended, \$6,165,000 of these bonds were redeemed, and \$6,000,000 was replaced in conjunction with the USDA backed loan of \$6,000,000 Total amount due by October 1, 2038. \$ 6,835,000

\$150,000 2008B series bond issuance for the building of a new school facility, the amortization remains open until completion of the construction and are held at a variable weekly rate. During the year ended, these bonds were redeemed in conjunction with the USDA backed loan of \$6,000,000. -

On December 31, 2009, the school entered into a loan backed by the United States Department of Agriculture in the amount of \$6,000,000. This loan is collateralized by the fixed assets of the school and bears interest at 4.25% per annum. The loan is interest only until January 2011, at which time principal and interest payments commence. The loan term is through January 2049.

Total

6,000,000
\$ 12,835,000

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2010

6. DEBT (continued)

Rollforward of long term debt

	July 01, 2009	Additions	Reductions	June 30, 2010	Amounts due in one year
2008 Series A	\$ 13,000,000	\$ -	\$ 6,165,000	\$ 6,835,000	\$ -
2008 Series B	150,000	-	150,000	-	-
USDA Loan	-	6,000,000	-	6,000,000	-
Interest Rate Swap	-	97,784	-	97,784	-
Arbitration settlement	275,000	-	-	275,000	27,500
Total	13,425,000	6,097,784	6,315,000	13,207,784	27,500
Compensated absences	153,182	14,206	-	167,388	63,073
Total Debt	\$ 13,578,182	\$ 6,111,990	\$ 6,315,000	\$ 13,375,172	\$ 90,573

Compensated Absences

As of June 30, 2010, the School had a liability of \$167,388 for compensated absences.

7. ARBITRATION SETTLEMENT

The School settled a dispute with its former management company over fees and costs associated with the start-up of the School. No payments or activity occurred in fiscal year 2010 and the School has accrued interest of \$20,900 as of June 30, 2010. Annual debt service requirements to maturity are as follows:

Year Ending June 30,	Amount
2011	\$ 27,500
2012	27,500
2013	27,500
2014	27,500
2015	27,500
2016 and thereafter	137,500
Total	\$ 275,000

8. PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. For the year ended June 30, 2010, the State contributed 15.02% of the State's share of employees' salary.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2010

8. PENSION PLAN (continued)

Certain significant plan provisions follow:

Early Retirement:

- a. 15 Years Service - Age 55
- b. 25 Years Service - Any Age

Service Retirement:

- a. 15 Years Service - Age 60
- b. 30 Years Service - Any Age
- c. 5 Years Service - Age 62

Disability Retirement:

Five Years Service and Proof of Disability

Vested Pension:

An Employee Can Vest Pension Rights After Five Years of Service.

The State's pension program is a defined benefit plan and includes other post-retirement benefits. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) Comprehensive Annual Financial Report. This report may be obtained by writing to DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or calling 1-800-722-7300.

9. RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts, theft, damage, or destruction of assets, errors or omissions, injuries to employees, or natural disasters. Payments of premiums for these policies are recorded as expenses for the School.

10. COMMITMENTS AND CONTINGENCIES

Grants

The School receives financial assistance from Federal agencies in the form of grants. The disbursement of funds received under these grants generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial.

REQUIRED SUPPLEMENTAL INFORMATION

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund
For the Year Ended June 30, 2010**

	Original and Final Budgeted Amounts	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenue			
State support	\$ 4,588,476	\$ 4,547,868	\$ (40,608)
Federal support	291,582	289,170	(2,412)
Charges to school districts	658,802	658,802	-
School lunch services and other services	250,000	411,858	161,858
Other revenues	-	376,258	376,258
Total Revenue	5,788,860	6,283,956	495,096
Expenditures			
Salaries	3,082,229	3,760,573	(678,344)
Textbooks	80,000	73,938	6,062
Contracted services	189,100	249,514	(60,414)
Professional development	19,786	11,454	8,332
Insurance	45,000	52,304	(7,304)
Rent	116,666	136,929	(20,263)
Miscellaneous	289,900	290,846	(946)
Utilities	137,000	142,408	(5,408)
Computers	-	-	-
Repairs and maintenance	61,000	35,939	25,061
Promotional	13,000	12,268	732
Supplies and materials	202,000	372,458	(170,458)
Transportation – buses	494,100	45,093	449,007
Legal fees	65,500	1,075	64,425
Custodial costs	133,345	140,347	(7,002)
Debt service – interest	25,418	25,418	-
Debt service – principal	121,338	-	121,338
Capital outlay and transfers	-	59,500	(59,500)
Additonal expenditures	137,466	-	137,466
Total Expenditures	5,212,848	5,410,064	(197,216)
Net Change in Fund Balance	\$ 576,012	\$ 873,892	\$ 297,880

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Notes to the Schedule of Revenue, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund
For the Year Ended June 30, 2010**

The School’s budget is prepared on the cash basis of accounting. The amount reported as “net change in fund balance” on the budgetary basis derives from the cash basis of accounting. Revenues are reported when received and expenditures are reported when paid. This amount differs from the “net change in fund balance” reported in the Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Funds” on page 13.

That statement is prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenue is considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenue 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.

The following reconciles the net change in fund balance per the budgetary basis to the net change in fund balance per the modified accrual basis.

Net change in fund balance, budgetary basis	\$ 873,892
Net decrease in salary accrual	47,864
Net decrease in receivables	(20,249)
Net decrease in accounts payable	185,248
Net change in fund balance, GAAP basis	<u>\$ 1,086,755</u>



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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***

To the School Board Members
Providence Creek Academy Charter School, Inc.

We have audited the financial statements of Providence Creek Academy Charter School, Inc. (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 9, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did identify the following deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above:

- Management did not have a system or process to track the nature or extent of fixed asset additions and the respective accounting for funding from debt and depreciation calculations.



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Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, the finance committee, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Hunt Valley, Maryland
December 9, 2010



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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the School Board Members
Providence Creek Academy Charter School, Inc.

Compliance

We have audited Providence Creek Academy Charter School, Inc. (the School) compliance with the types of compliance requirements described in the *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2010. The School's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.



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Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, the finance committee, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hunt Valley, Maryland
December 9, 2010

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010**

<u>Federal Grantor/ Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-through or Agency Number</u>	<u>Federal Program Expenditures</u>
U.S. Department of Agriculture:			
Direct Programs:			
Community Facilities Loans and Grants	10.766	N/A	\$ 6,000,000

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Notes to the Schedule of Expenditures of Federal Awards
June 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of Providence Creek Academy Charter School, Inc. (the School) are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133 (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. The programs on the Schedule of Expenditures of Federal Awards represent all Federal award programs and other grants with fiscal year 2010 cash or non-cash expenditures activities. For our single audit testing, we tested Federal award programs with 2010 cash and non-cash expenditures in excess of \$300,000 to ensure coverage of at least 25% of Federally granted funds. Our actual coverage was 100%.

<u>Major Programs</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Community Facilities Loans and Grants	10.766	\$ 6,000,000

2. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards has been accounted for on the accrual basis of accounting.

3. LOAN PROGRAM

During the fiscal year ended June 30, 2010, the School entered into a loan agreement with the United States Department of Agriculture (CFDA No. 10.766) in the amount of \$6,000,000. The outstanding balance of the loan payable was \$6,000,000 as of June 30, 2010. The interest rate at June 30, 2010, was 4.25%.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010**

Section I - Summary of Independent Public Accountant's Results

Financial Statements

Type of auditors report issued	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to the financial statements noted	No

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
Type of Auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No

Identification of Major Programs:

<u>Programs</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:		
Community Facilities Loans and Grants	10.766	\$ 6,000,000
Threshold for distinguishing between Type A and B programs		\$ 300,000
Did the auditee qualify as a low risk auditee?		Yes

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010**

Section II – Financial Statement Findings

Finding: 2010-1

Condition

Management did not have a system or process to track the nature or extent of fixed asset additions and the respective accounting for funding from debt and depreciation calculations.

Criteria

The internal Control-Integrated Framework (COSO) requires effective internal controls to ensure that financial transactions are properly recorded and accounted for to permit the preparation of reliable financial statements.

Cause

At the present time, the School does not have the proper internal controls in place to track fixed assets.

Effect

As a result of not maintaining fixed asset records, the School could not track the extent of fixed asset activity.

Recommendation

We recommend that the School maintain detailed fixed asset records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for assets.

Management Response and Corrective Action Plan

Management has put into place a system that will track fixed assets starting in fiscal year 2011 to remedy the situation.

Section III – Federal Award Findings

None Noted