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

Financial Statements Together with
Report of Independent Public Accountants and
Supplementary Information

For the Year Ended June 30, 2012

SB & COMPANY, LLC
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JUNE 30, 2012

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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 basic financial statements of the governmental activities, and the governmental fund of Providence Creek Academy Charter School, Inc. (the School), a component unit of the State of Delaware as of June 30, 2012 and for the year ended 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 of America. 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, 2012, and the respective changes in its 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 January 28, 2013, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The schedule of expenditures of Federal awards is presented for the purpose of additional analysis as required by the *U.S. Office of Management and Budget OMB Circular A-133 Audits of States, Local Governments and Not-for-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the financial statements. The information has been subjected to the auditing principles applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hunt Valley, Maryland
January 28, 2013

SB + Company, LLC

Management's Discussion and Analysis
June 30, 2012

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 June 30, 2012. 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 $168,329, to total net assets of $265,975, as of June 30, 2012.

The primary changes in the School's Statement of Net Assets as of June 30, 2012, compared to June 30, 2011, is related to an increase in expenses due to personnel and maintenance of facilities costs offset by an increase in revenue due to a write off of the arbitration liability .

Total revenue for the year (both general and program-related) increased by $844,923, during the year ended June 30, 2012, compared to the year ended June 30, 2011, primarily due to increased State aid, other revenue and a write off of an arbitration liability.

Total expenses for the year ended were $7,104,812, an increase of $479,323, compared to the prior year, primarily due to inflationary factors and expenses related to the new school building and costs related to 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.

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 the governmental fund (general), 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 fund 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, 2012, with the fiscal year 2011 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 Fund; and Statement of Revenue, Expenditures and Change in Fund Balance-Governmental Fund.

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 the School's financial position. In the case of the School, assets exceeded liabilities by $265,975, 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.

	As of June 30,	
	2012	**2011**
ASSETS		
Current assets	**$ 2,230,240**	$ 2,174,677
Noncurrent assets	**762,988**	788,835
Capital assets, net	**11,552,855**	11,807,806
Total Assets	**14,546,083**	14,771,318
LIABILITIES		
Current liabilities	**736,398**	823,637
Noncurrent liabilities	**13,543,710**	13,513,377
Total Liabilities	**14,280,108**	14,337,014
NET ASSETS		
Invested in capital assets, net of related debt	**(902,110)**	(924,637)
Restricted net assets	**26,280**	26,280
Unrestricted	**1,141,805**	1,332,661
Total Net Assets	**$ 265,975**	$ 434,304

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,	
	2012	**2011**
Revenue		
General revenue:		
Charges to school districts	**$ 694,575**	$ 568,312
Payments from primary government	**4,715,279**	4,587,490
Other revenue	**295,900**	36,362
Program revenue:		
Charges for services	**687,704**	255,629
Operating grants and contributions	**543,025**	643,767
Total Revenue	**6,936,483**	6,091,560
Expenses		
Instructional services	**4,400,195**	3,882,136
Support service:		
Operation and maintenance of facilities	**2,340,364**	2,126,330
Transportation	**116,290**	404,834
School lunch services and other	**247,963**	212,189
Total Expenses	**7,104,812**	6,625,489
Changes in Net Assets	**$ (168,329)**	$ (533,929)

Governmental Activities

Net assets of the School's governmental activities decreased in the current year by $168,329, and unrestricted net assets reflect a positive balance of $265,975. The unrestricted net asset balance is a result of investments made in capital assets. The decrease in net assets is primarily the result of increased operating costs, depreciation expense, increased interest expense and the decrease in the valuation of the interest rate swap.

The School's Funds

The School's governmental funds (as presented on the balance sheet) reported a positive fund balance of $1,583,805, as of June 30, 2012, compared to prior year's balance of $1,507,714.

Governmental Funds

The School's fund balance decrease is due to a variety of factors. The following table assists in illustrating the financial activities and balance of governmental funds as of June 30, 2012 and 2011.

	For the Years Ended June 30,	
	2012	**2011**
Revenue		
Charges to school districts	**$ 694,575**	$ 568,312
State aid	**4,715,279**	4,587,490
Federal aid	**543,025**	643,767
Other sources	**708,604**	291,991
Total Revenue	**6,661,483**	6,091,560
Expenditures		
Program services:		
Instruction	**4,397,492**	3,882,136
Operation and maintenance of facilities	**1,200,120**	892,429
Transportation and other	**364,253**	617,023
Debt service:		
Principal	**54,594**	39,305
Interest	**531,933**	714,301
Capital outlays:		
Buildings and equipment	**37,000**	81,371
Total Expenditures	**6,585,392**	6,226,565
Net changes in fund balance	**76,091**	(135,005)
Fund balance, beginning of year	**1,507,714**	1,642,719
Fund Balance, End of Year	**$ 1,583,805**	$ 1,507,714

The fund balance of the School increased by $76,091, to $1,583,805, primarily as a result of increased program revenue offset by increased expenses for instruction and operations and maintenance of facilities, offset by a decrease in transportation and interest costs.

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 2012.

Capital Assets

The School has invested $11,552,855, in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled $37,000, and depreciation expense was $291,951.

Debt Administration

As of June 30, 2012, the School had approximately $6,835,000 in bond issuances and $5,906,101 in loans payable. During the year ended June 30, 2012, the School made required principal payments of $54,594, on the loans payable. There were no required payments on the bonds payable. 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 an 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 2012, the School write off a liability for an arbitration settlement of $295,900.

Other obligations include accrued vacation pay and sick leave for School employees. More detailed information about long-term liabilities are included in Notes 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, Shanna Simens, 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, 2012

ASSETS		
Current Assets		
Amounts held by the State of Delaware	$	2,203,960
Restricted cash and cash equivalents		26,280
Total Current Assets		2,230,240
Noncurrent Assets		
Deferred financing costs, net of amortization		762,988
Capital assets, net of depreciation		11,552,855
Total Assets		14,546,083
LIABILITIES		
Current Liabilities		
Accounts payable		36,225
Accrued salaries and related costs		502,428
Accrued expenses		24,342
Compensated absences, current portion		107,782
Current portion of bonds and loan payable		65,621
Total Current Liabilities		736,398
Noncurrent Liabilities		
Compensated absences		85,070
Bonds payable		6,835,000
Loan payable		5,840,480
Swap liability payable		783,160
Total Noncurrent Liabilities		13,543,710
Total Liabilities		14,280,108
NET ASSETS		
Invested in capital assets, net of related debt		(902,110)
Restricted net assets		26,280
Unrestricted net assets		1,141,805
Total Net Assets	$	265,975

The accompanying notes are an integral part of this statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Statement of Activities
For the Year Ended June 30, 2012

			Program Revenues				**Net (Expenses) Revenue and Change in Net Assets**	
	Expenses		**Charges For Services**		**Operating Grants and Contributions**		**Total Governmental Activities**	
Governmental Activities:								
Instructional services	$	4,400,195	$	-	$	543,025	$	(3,857,170)
Supporting services:								
Operation and maintenance of facilities		1,448,240		-		-		(1,448,240)
Transportation		116,290		-		-		(116,290)
School lunch services and other		247,963		687,704		-		439,741
Interest		892,124		-		-		(892,124)
Total	**$**	**7,104,812**	**$**	**687,704**	**$**	**543,025**		**(5,874,083)**
General Revenue:								
Charges to school districts								694,575
State aid not restricted to specific purposes								4,715,279
Other revenue								295,900
Total General Revenue								5,705,754
Change in net assets								(168,329)
Net assets, beginning of year								434,304
Net Assets, End of Year							$	265,975

The accompanying notes are an integral part of this statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Balance Sheet – Governmental Fund
As of June 30, 2012

		General Fund
ASSETS		
Amounts held by the State of Delaware	$	2,203,960
Restricted cash and cash equivalents		26,280
Total Assets	$	2,230,240
LIABILITIES		
Accrued salaries and related costs	$	538,653
Compensated absences, current portion		107,782
Total Liabilities		646,435
Fund Balance		
Unreserved		1,583,805
Total Liabilities and Fund Balance	$	2,230,240

The accompanying notes are an integral part of this schedule.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Reconciliation of the Balance Sheet of
Governmental Fund to the Statement of Net Assets
As of June 30, 2012

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

Total Fund Balance – Governmental Fund	**$**	**1,583,805**
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 $12,949,631, and the related accumulated depreciation is $1,396,776.		**11,552,855**
Deferred financing costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.		**762,988**
Long-term debt liabilities, accrued interest, swap liability, and the arbitration settlement are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		**(13,548,603)**
Long-term compensated absence liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		**(85,070)**
Total Net Assets – Governmental Activities	**$**	**265,975**

The accompanying notes are an integral part of this schedule.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Statement of Revenue, Expenditures and Change in Fund Balance – Governmental Fund
For the Year Ended June 30, 2012

		General Fund
Revenue		
State support	**$**	**4,715,279**
Federal support		**543,025**
Charges to school districts		**694,575**
Charges for services		**687,704**
Misc. Revenue		**20,900**
Total Revenue		**6,661,483**
Expenditures		
Program services:		
Instructional services		**4,397,492**
Supporting services:		
Operation and maintenance of facilities		**1,200,120**
Transportation		**116,290**
School lunch services and other		**247,963**
Capital outlays		**37,000**
Debt service:		
Principal		**54,594**
Interest		**531,933**
Total Expenditures		**6,585,392**
Net change in fund balance		**76,091**
Fund balance, beginning of year		**1,507,714**
Fund Balance, End of Year	**$**	**1,583,805**

The accompanying notes are an integral part of this statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Fund to the Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balance – Governmental Funds	**$**	**76,091**
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 depreciation of $291,951 exceeded capital outlays of $37,000.		**(254,951)**
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.		**(25,847)**
Governmental funds report debt principal payments and other activity as expenditures. However in the Statement of Activities, this activity is not recorded.		**54,594**
Governmental funds report do not report the change valuation of the interest rate swap. The Statement of Activities does record this activity. This is the amount of the change in valuation during the year.		**(334,344)**
The Statement of Activities report the forgiveness of debt of $295,900, and governmental funds report the forgiveness of debt of $20,900, the current amount.		**275,000**
Governmental funds report compensated absences as expended whereas the Statement of Activities shows this expense on an accrual basis. This is the change in the accrued amount.		**41,128**
Change in Net Assets – Governmental Activities	**$**	**(168,329)**

The accompanying notes are an integral part of this statement.

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.

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 one fund which is the general fund.

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.

Deferred 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 government-wide statements and will be amortized over the respective periods for the various debt instruments.

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 $25,000, 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.

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.

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, 2012, 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 January 28, 2013, the date the financial 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, 2012, the School had amounts held by the State of Delaware totaling $2,203,960 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.

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, 2012, was as follows:

	Balance June 30, 2011	Change	Balance June 30, 2012
Capital assets not being depreciated:			
Land	$ 1,585,906	$ -	**$ 1,585,906**
Capital assets being depreciated:			
Land improvements	49,500	-	**49,500**
Buildings	10,617,734	-	**10,617,734**
Vehicles	91,371	37,000	**128,371**
Furniture and equipment	568,120	-	**568,120**
Total Capital Assets	12,912,631	37,000	**12,949,631**
Less accumulated depreciation:			
Land improvements	(2,475)	(3,300)	**(5,775)**
Buildings	(508,766)	(265,443)	**(774,209)**
Vehicles	(25,464)	(23,208)	**(48,672)**
Furniture and equipment	(568,120)	-	**(568,120)**
Total Depreciation	(1,104,825)	(291,951)	**(1,396,776)**
Total Capital Assets, Net	$ 11,807,806	$ (254,951)	**$ 11,552,855**

Depreciation expense was $291,951 for the year ended June 30, 2012, and is included in operation and maintenance of facilities in the Statement of Activities.

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 was 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 approximately $6 million as of June 30, 2011. The interest rate at June 30, 2012, 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. As of June 30, 2012, the School had one outstanding interest rate swap agreement with a commercial bank (S&P A+ rated as of June 30, 2012), 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. Total amount due by October 1, 2038.	$	6,835,000
On December 1, 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 was interest only until January 2011, at which time principal and interest payments commence. The loan term is through January 2049.		5,906,101
Interest rate swap, maturing April 2017, marked to market annually.		783,160
Total	$	13,524,261

6. DEBT (continued)

Rollforward of long term debt

	June 30, 2011	Additions	Reductions	June 30, 2012	Amounts due in one year
2008 Series A	$ 6,835,000	$ -	$ -	**$ 6,835,000**	$ -
USDA Loan	5,897,443	-	54,594	**5,842,849**	65,621
Interest Rate Swap	448,816	334,344	-	**783,160**	-
Arbitration	295,900	-	295,900	-	-
Total	13,540,411	334,344	350,494	**13,461,009**	65,621
Compensated absences	190,149	2,703	-	**192,852**	107,782
Total Debt	$ 13,730,560	$ 337,047	$ 350,494	**$ 13,653,861**	$ 173,403

Annual debt service requirements to maturity as of June 30, 2012, was as follows:

	2008 Series A			USDA		
Fiscal years ending	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2013	$ -	$ 325,346	$ 325,346	$ 65,621	$ 249,739	$ 315,360
2014	95,000	323,085	418,085	68,464	246,896	315,360
2015	115,000	318,087	433,087	71,432	243,928	315,360
2016	125,000	312,375	437,375	74,525	240,835	315,360
2017	130,000	306,306	436,306	77,756	237,604	315,360
2018-2022	800,000	1,425,620	2,225,620	442,344	1,134,456	1,576,800
2023-2027	1,080,000	1,203,804	2,283,804	546,867	1,029,933	1,576,800
2028-2032	1,480,000	901,544	2,381,544	676,094	900,706	1,576,800
2033-2037	2,010,000	489,090	2,499,090	835,857	740,943	1,576,800
2038-2042	1,000,000	48,314	1,048,314	1,033,370	543,430	1,576,800
2043-2047	-	-	-	999,920	261,520	1,261,440
2048-2050	-	-	-	1,013,851	78,043	1,091,894
Total	$ 6,835,000	$ 5,653,571	$ 12,488,571	$ 5,906,101	$ 5,908,033	$ 11,814,134

Compensated Absences

As of June 30, 2012, the School had a liability of $192,852 for compensated absences.

7. PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. For the year ended June 30, 2012, the State contributed 15.02% of the State's share of employees' salary.

Certain significant plan provisions follow:

Early Retirement:	Service Retirement:
a. 15 Years Service - Age 55	a. 15 Years Service - Age 60
b. 25 Years Service - Any Age	b. 30 Years Service - Any Age
	c. 5 Years Service - Age 62
Disability Retirement:	Vested Pension:
Five Years Service and Proof of Disability	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.

8. RISK MANAGEMENT

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

9. COMMITMENTS AND CONTINGENCIES

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 Change in Fund Balance – Budget and Actual – General Fund
For the Year Ended June 30, 2012

	Original and Final Budgeted Amounts	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenue			
State support	$ 4,715,150	$ 4,715,279	$ 129
Federal support	-	543,025	543,025
Charges to school districts	677,007	694,575	17,568
School lunch services and other services	275,000	276,256	1,256
Other revenues	303,375	432,348	128,973
Total Revenue	5,970,532	6,661,483	690,951
Expenditures			
Salaries	3,619,061	4,540,957	(921,896)
Textbooks	60,000	75,902	(15,902)
Contracted services	152,000	160,783	(8,783)
Professional development	14,786	317	14,469
Insurance	55,000	72,780	(17,780)
Miscellaneous	45,700	19,364	26,336
Utilities	160,000	188,584	(28,584)
Computers	10,000	80,134	(70,134)
Repairs and maintenance	34,000	85,417	(51,417)
Promotional	3,100	11,404	(8,304)
Supplies and materials	69,200	139,395	(70,195)
Food service	275,000	247,963	27,037
Transportation – buses	410,000	95,529	314,471
Legal fees	20,000	1,539	18,461
Custodial costs	26,400	35,694	(9,294)
Debt service – interest	754,000	610,513	143,487
Debt service – principal	-	54,594	(54,594)
Contingency reserve	107,285	-	107,285
Capital outlay and transfers	155,000	164,151	(9,151)
Total Expenditures	5,970,532	6,585,020	(614,488)
Net Change in Fund Balance	$ -	$ 76,463	$ 76,463

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Note to the Schedule of Revenue, Expenditures and Change in Fund Balance-
Budget and Actual – General Fund
For the Year Ended June 30, 2012**

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 Fund" 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	$	76,463
Net increase in salary accrual		38,104
Net decrease in other accruals and activities		(38,476)
Net change in fund balance	$	76,091

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 basic financial statements of Providence Creek Academy Charter School, Inc. (the School) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 28, 2013. 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

Management at the School is responsible for establishing and maintaining effective 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 not identify any deficiencies in internal control over financial reporting that we consider to be material weakness as defined above.

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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
January 28, 2013

SB & Company, LLC

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 the compliance of Providence Creek Academy Charter School, Inc. (the School) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *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, 2012. 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, 2012.

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Internal Control Over Compliance

The 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 as a basis for designing our 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 over compliance 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.

SB & Company, LLC

Hunt Valley, Maryland
January 28, 2013

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/ Pass Through Grantor/Program Title	CFDA Number	Pass-through or Agency Number	Federal Program Expenditures
U.S Department of Education			
Passed through Delaware State Department of Education			
U.S. Department of Education			
Title I Cluster			
Title I Grants to local educational agencies	84.010	NA	$ 159,279
Title I -ARRA	84.010	NA	10,566
Total Title I Cluster			169,845
Special Education Cluster			
IDEA Part B	84.027	NA	138,451
IDEA Part B- ARRA	84.027	NA	16,975
IDEA Part B Prescool -ARRA	84.392	NA	225
Preschool IDEA	84.173	NA	121
Total Special Eduction Cluster			155,772
Title II	84.367	NA	8,778
ARRA Race to the Top	84.395	NA	94,606
Education Job Fund	84.410	NA	114,024
Total passed through Delaware State Department of Eduction			543,025
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 543,025

The accompanying notes are an integral part of this schedule.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC

Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

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 2012 cash or non-cash expenditures activities. For our single audit testing, we tested Federal award programs with 2012 cash and non-cash expenditures to ensure coverage of at least 25% of Federally granted funds. Our actual coverage was 38%.

Major Programs	CFDA Number	Federal Expenditures
ARRA Race to the Top	84.395	$ 94,606
Education Job Fund	84.410	114,024

2. BASIS OF PRESENTATION

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

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC

Schedule of Finding and Questioned Costs
For the Year Ended June 30, 2012

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?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	No
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:

Programs	CFDA Number	Federal Expenditures
U.S. Department of Education:		
ARRA Race to the Top	84.395	$ 94,606
Education Job Fund	84.410	114,024

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 Finding and Questioned Costs
For the Year Ended June 30, 2012

Section II –Financial Statement Finding

None noted.

Section III – Federal Award Finding and Questioned Cost

None noted.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC

Schedule of Prior Year Finding and Questioned Costs
For the Year Ended June 30, 2012

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.

Status

Resolved