

**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, 2013**



**SB & COMPANY, LLC**  
EXPERIENCE • QUALITY • CLIENT SERVICE

**JUNE 30, 2013**

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and governmental fund of Providence Creek Academy Charter School, Inc. (the School), a component unit of the State of Delaware, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The School's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2013, and the changes in its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

**Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and Required Supplemental Information Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 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* in considering the School’s internal control over financial reporting and compliance.

*SB + Company, LLC*

Hunt Valley, Maryland  
October 1, 2013

## **PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.**

### **Management's Discussion and Analysis June 30, 2013**

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, 2013. 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 position increased by \$572,339, to total net assets of \$838,314, as of June 30, 2013.

The primary changes in the School's Statement of Net Position as of June 30, 2013, compared to June 30, 2012, is related to a decrease in expenses due to personnel and maintenance of facilities costs offset by a decrease in revenue due to a one time write off of the arbitration liability in fiscal year 2012 and less program revenue from operating grants .

Total revenue for the year (both general and program-related) decreased by \$319,314, during the year ended June 30, 2013, compared to the year ended June 30, 2012, primarily due to decreased operating grants, and a write off of an arbitration liability in fiscal year 2012.

Total expenses for the year ended were \$6,044,830, a decrease of \$1,059,982, compared to the prior year, primarily due to lower instructional services, operation and maintenance cost, and interest expense due to the a favorable increase in the valuation of the interest rate swap .

#### **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 Position and Statement of Activities*

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School as a whole and about its activities 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, 2013**

### *The Statement of Net Position and Statement of Activities (continued)*

These two statements report the School's net position and changes in them. The change in net position provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. 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 Position 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, 2013, with the fiscal year 2012 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 Position; the Statement of Activities; Balance Sheet-Governmental Fund; and Statement of Revenue, Expenditures and Change in Fund Balance-Governmental Fund.

### **Statement of Net Position**

The Statement of Net Position 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 Position is to present to the readers a fiscal "snapshot" of the School. The Statement of Net Position 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 position. 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.

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Management's Discussion and Analysis June 30, 2013

### Government-Wide Financial Analysis

As noted earlier, net position serves over time as a useful indicator of the School's financial position. In the case of the School, assets exceeded liabilities by \$838,314, at the close of the year. Note that the net investment 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.

	<b>As of June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current assets	\$ 2,844,274	\$ 2,230,240
Noncurrent assets	737,141	762,988
Capital assets, net	11,258,437	11,552,855
<b>Total Assets</b>	<b>14,839,852</b>	<b>14,546,083</b>
<b>LIABILITIES</b>		
Current liabilities	825,616	736,398
Noncurrent liabilities	12,594,170	13,543,710
<b>Total Liabilities</b>	<b>13,419,786</b>	<b>14,280,108</b>
<b>DEFERRED INFLOWS</b>		
Accumulated fair value of swap liability	581,752	783,160
<b>NET POSITION</b>		
Net investment in capital assets	(1,417,043)	(902,110)
Restricted net position	28,065	26,280
Unrestricted	2,227,292	1,141,805
<b>Total Net Position</b>	<b>\$ 838,314</b>	<b>\$ 265,975</b>

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Management's Discussion and Analysis June 30, 2013

### 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 position may be used to meet the School's ongoing activities.

	Governmental Activities For the Years Ended June 30,	
	2013	2012
<b>Revenue</b>		
General revenue:		
Charges to school districts	\$ 832,121	\$ 694,575
Payments from primary government	4,823,730	4,715,279
Other revenue	-	295,900
Program revenue:		
Charges for services	653,675	687,704
Operating grants and contributions	307,643	543,025
<b>Total Revenue</b>	<b>6,617,169</b>	<b>6,936,483</b>
<b>Expenses</b>		
Instructional services	3,813,391	4,400,195
Support service:		
Operation and maintenance of facilities	1,592,670	2,340,364
Transportation	372,439	116,290
School lunch services and other	266,330	247,963
<b>Total Expenses</b>	<b>6,044,830</b>	<b>7,104,812</b>
<b>Changes in Net Position</b>	<b>\$ 572,339</b>	<b>\$ (168,329)</b>

### Governmental Activities

Net position of the School's governmental activities increased in the current year by \$572,339, and unrestricted net position reflect a positive balance of \$838,314. The unrestricted net position balance is a result of investments made in capital assets. The increase in net position is primarily the result of decreased operating costs and the increase 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 \$2,200,733, as of June 30, 2013, compared to prior year's balance of \$1,583,805.



# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Management's Discussion and Analysis June 30, 2013

### 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, 2013 and 2012.

	For the Years Ended June 30,	
	2013	2012
<b>Revenue</b>		
Charges to school districts	\$ 832,121	\$ 694,575
State aid	4,823,730	4,715,279
Federal aid	307,643	543,025
Other sources	653,675	708,604
<b>Total Revenue</b>	<b>6,617,169</b>	<b>6,661,483</b>
<b>Expenditures</b>		
Program services:		
Instruction	3,815,402	4,397,492
Operation and maintenance of facilities	880,204	1,200,120
Transportation and other	638,769	364,253
Debt service:		
Principal	65,621	54,594
Interest	600,245	531,933
Capital outlays:		
Buildings and equipment	-	37,000
<b>Total Expenditures</b>	<b>6,000,241</b>	<b>6,585,392</b>
Net changes in fund balance	616,928	76,091
Fund balance, beginning of year	1,583,805	1,507,714
<b>Fund Balance, End of Year</b>	<b>\$ 2,200,733</b>	<b>\$ 1,583,805</b>

The fund balance of the School increased by \$616,928, to \$2,200,733, primarily as a result of decreased operating expenses offset by decreased program revenue related to Federal aid.

## **PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.**

### **Management's Discussion and Analysis June 30, 2013**

#### **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 2013.

#### **Capital Assets**

The School has invested \$11,258,437, in capital assets, net of depreciation, all of which is attributed to governmental activities. There were no acquisitions for governmental activities and depreciation expense was \$294,918, for the year ended June 30, 2013.

#### **Debt Administration**

As of June 30, 2013, the School had approximately \$6,835,000 in bond issuances and \$5,840,481, in loans payable. During the year ended June 30, 2013, the School made required principal payments of \$65,621, 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.

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 Simmens, 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 Position  
As of June 30, 2013**

<b>ASSETS</b>	
<b>Current Assets</b>	
Amounts held by the State of Delaware	\$ 2,810,622
Restricted cash and cash equivalents	28,065
Accounts receivable	5,587
<b>Total Current Assets</b>	<u>2,844,274</u>
<b>Noncurrent Assets</b>	
Deferred financing costs, net of amortization	737,141
Capital assets, net of depreciation	11,258,437
<b>Total Assets</b>	<u>14,839,852</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	36,225
Accrued salaries and related costs	504,439
Accrued expenses	18,611
Compensated absences, current portion	102,877
Current portion of bonds and loan payable	163,464
<b>Total Current Liabilities</b>	<u>825,616</u>
<b>Noncurrent Liabilities</b>	
Compensated absences	82,154
Bonds payable	6,740,000
Loan payable	5,772,016
<b>Total Noncurrent Liabilities</b>	<u>12,594,170</u>
<b>Total Liabilities</b>	<u>13,419,786</u>
<b>DEFERRED INFLOWS</b>	
Accumulated fair value of swap liability	<u>581,752</u>
<b>NET POSITION</b>	
Net investment in capital assets	(1,417,043)
Restricted net position	28,065
Unrestricted net position	2,227,292
<b>Total Net Position</b>	<u>\$ 838,314</u>

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, 2013**

	Program Revenues			Net (Expenses) Revenue and Change in Net Assets
	Expenses	Charges For Services	Operating Grants and Contributions	Total Governmental Activities
<b>Governmental Activities:</b>				
Instructional services	\$ 3,813,391	\$ -	\$ 307,643	\$ (3,505,748)
Supporting services:				
Operation and maintenance of facilities	1,167,986	-	-	(1,167,986)
Transportation	372,439	-	-	(372,439)
School lunch services and other	266,330	653,675	-	387,345
Interest	424,684	-	-	(424,684)
<b>Total</b>	<b>\$ 6,044,830</b>	<b>\$ 653,675</b>	<b>\$ 307,643</b>	<b>(5,083,512)</b>
<b>General Revenue:</b>				
Charges to school districts				832,121
State aid not restricted to specific purposes				4,823,730
<b>Total General Revenue</b>				<b>5,655,851</b>
Change in net position				572,339
Net position, beginning of year				265,975
<b>Net Position, End of Year</b>				<b>\$ 838,314</b>

The accompanying notes are an integral part of this statement.

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.**

**Balance Sheet – Governmental Fund  
As of June 30, 2013**

<b>ASSETS</b>	<b>General Fund</b>
Amounts held by the State of Delaware	\$ 2,810,622
Restricted cash and cash equivalents	28,065
Accounts receivable	5,587
<b>Total Assets</b>	<b>\$ 2,844,274</b>
 <b>LIABILITIES</b>  	
Accrued salaries and related costs	\$ 540,664
Compensated absences, current portion	102,877
<b>Total Liabilities</b>	<b>643,541</b>
 <b>Fund Balance</b>	
Unreserved	 2,200,733
 <b>Total Liabilities and Fund Balance</b>	 <b>\$ 2,844,274</b>

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 Position  
As of June 30, 2013**

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

Total Fund Balance – Governmental Fund	<b>\$ 2,200,733</b>
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 \$1,691,194.	<b>11,258,437</b>
Deferred financing costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<b>737,141</b>
Long-term debt liabilities, accrued interest and swap liability are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	<b>(13,275,843)</b>
Long-term compensated absence liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	<b>(82,154)</b>
<b>Total Net Position – Governmental Activities</b>	<b>\$ 838,314</b>

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, 2013**

	<u>General Fund</u>
<b>Revenue</b>	
State support	\$ 4,823,730
Federal support	307,643
Charges to school districts	832,121
Charges for services	653,675
<b>Total Revenue</b>	<u>6,617,169</u>
<b>Expenditures</b>	
Program services:	
Instructional services	3,815,402
Supporting services:	
Operation and maintenance of facilities	880,204
Transportation	372,439
School lunch services and other	266,330
Debt service:	
Principal	65,621
Interest	600,245
<b>Total Expenditures</b>	<u>6,000,241</u>
Net change in fund balance	616,928
Fund balance, beginning of year	1,583,805
<b>Fund Balance, End of Year</b>	<u>\$ 2,200,733</u>

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, 2013**

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

Net change in fund balance – Governmental Funds	<b>\$ 616,928</b>
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 \$294,418 exceeded capital outlays of \$0.	<b>(294,418)</b>
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.	<b>(25,847)</b>
Governmental funds report debt principal payments and other activity as expenditures. However in the Statement of Activities, this activity is not recorded.	<b>65,621</b>
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.	<b>201,408</b>
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.	<b>8,647</b>
<b>Change in Net Position – Governmental Activities</b>	<b>\$ 572,339</b>

The accompanying notes are an integral part of this statement.



# **PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.**

## **Notes to the Financial Statements**

**June 30, 2013**

### **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 Position 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, 2013**

### **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.

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Notes to the Financial Statements

June 30, 2013

### 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 accounting principles generally accepted in the United States, *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 Position and the related gain on this agreement recognized in the Statement of Activities.

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.**

**Notes to the Financial Statements**

**June 30, 2013**

**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, 2013, 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 1<sup>st</sup> 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.

**Deferred Inflows/Outflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**New Accounting Pronouncements**

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. The School has implemented the above statement, and it had no material effect on the financial position of the School.

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Notes to the Financial Statements

June 30, 2013

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New Accounting Pronouncements (continued)

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. The School will implement this statement as of its effective date. The School is still in the process of determining the effect of implementing this GASB statement.

#### Subsequent Events

The School evaluated the accompanying financial statements for subsequent events and transactions through October 1, 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, 2013, the School had amounts held by the State of Delaware totaling \$2,810,622, 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.

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.**

**Notes to the Financial Statements**

**June 30, 2013**

**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Change</u>	<u>Balance</u> <u>June 30, 2013</u>
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	128,371	-	128,371
Furniture and equipment	568,120	-	568,120
<b>Total Capital Assets</b>	<u>12,949,631</u>	<u>-</u>	<u>12,949,631</u>
Less accumulated depreciation:			
Land improvements	(5,775)	(3,300)	(9,075)
Buildings	(774,209)	(265,443)	(1,039,652)
Vehicles	(48,672)	(25,675)	(74,347)
Furniture and equipment	(568,120)	-	(568,120)
Total Depreciation	<u>(1,396,776)</u>	<u>(294,418)</u>	<u>(1,691,194)</u>
<b>Total Capital Assets, Net</b>	<u>\$ 11,552,855</u>	<u>\$ (294,418)</u>	<u>\$ 11,258,437</u>

Depreciation expense was \$294,418, for the year ended June 30, 2013, 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, 2013

### 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, 2013. The interest rate at June 30, 2013, 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, 2013, the School had one outstanding interest rate swap agreement with a commercial bank (S&P A+ rated as of June 30, 2013), 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
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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.	5,840,480
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Interest rate swap, maturing April 2017, marked to market annually.	581,752
<b>Total</b>	<u><u>\$ 13,257,232</u></u>

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.**

**Notes to the Financial Statements  
June 30, 2013**

**6. DEBT (continued)**

*Rollforward of long term debt*

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013</u>	<u>Amounts due in one year</u>
2008 Series A	\$ 6,835,000	\$ -	\$ -	<b>\$ 6,835,000</b>	\$ 95,000
USDA Loan	5,906,101	-	65,621	<b>5,840,480</b>	68,464
Interest Rate Swap	783,160	-	201,408	<b>581,752</b>	-
<b>Total</b>	<b>13,524,261</b>	<b>-</b>	<b>267,029</b>	<b>13,257,232</b>	<b>163,464</b>
Compensated absences	192,852	-	7,821	<b>185,031</b>	102,877
<b>Total Debt</b>	<b>\$ 13,717,113</b>	<b>\$ -</b>	<b>\$ 274,850</b>	<b>\$ 13,442,263</b>	<b>\$ 266,341</b>

Annual debt service requirements to maturity as of June 30, 2013, was as follows:

<u>Fiscal years ending</u>	<u>2008 Series A</u>			<u>USDA</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	140,000	299,880	439,880	81,125	234,235	315,360
2019-2023	850,000	1,386,350	2,236,350	461,514	1,115,286	1,576,800
2024-2028	1,150,000	1,150,730	2,300,730	570,567	1,006,233	1,576,800
2029-2033	1,575,000	828,835	2,403,835	705,396	871,404	1,576,800
2034-2038	2,140,000	390,320	2,530,320	872,079	704,721	1,576,800
2039-2043	515,000	12,257	527,257	1,078,155	498,645	1,576,800
2044-2048	-	-	-	1,332,925	243,875	1,576,800
2049-2050	-	-	-	446,542	14,632	461,174
<b>Total</b>	<b>\$ 6,835,000</b>	<b>\$ 5,328,225</b>	<b>\$ 12,163,225</b>	<b>\$ 5,840,480</b>	<b>\$ 5,658,294</b>	<b>\$ 11,498,774</b>

**Compensated Absences**

As of June 30, 2013, the School had a liability of \$185,031 for compensated absences.



**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.**

**Notes to the Financial Statements**

**June 30, 2013**

**7. PENSION PLAN**

School employees are considered State employees and are covered under the State's pension program. For the year ended June 30, 2013, the State contributed 15.02% of the State's share of employees' salary.

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.

**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.



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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 Board of Directors  
Providence Creek Academy Charter School, Inc.

We have audited, 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, the 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 and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 1, 2013.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



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### ***Compliance and Other Matters***

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

### **Purpose of this Report**

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

*SB & Company, LLC*

Hunt Valley, Maryland  
October 1, 2013

**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, 2013**

	<b>Original and Final Budgeted Amounts</b>	<b>Actual Amounts Budgetary Basis</b>	<b>Variance With Final Budget Positive (Negative)</b>
<b>Revenue</b>			
State support	\$ 4,812,266	\$ 4,823,730	\$ 11,464
Federal support	-	307,643	307,643
Charges to school districts	887,677	832,121	(55,556)
School lunch services and other services	260,000	265,683	5,683
Other revenues	120,286	387,992	267,706
<b>Total Revenue</b>	<b>6,080,229</b>	<b>6,617,169</b>	<b>536,940</b>
<b>Expenditures</b>			
Salaries	3,574,860	4,094,392	(519,532)
Textbooks	34,110	37,757	(3,647)
Contracted services	132,000	152,198	(20,198)
Professional development	11,170	13,804	(2,634)
Insurance	70,000	58,766	11,234
Miscellaneous	142,387	22,325	120,062
Utilities	180,000	183,889	(3,889)
Computers	200	81,657	(81,457)
Repairs and maintenance	44,000	110,508	(66,508)
Promotional	3,000	6,371	(3,371)
Supplies and materials	125,507	153,504	(27,997)
Food service	275,000	266,330	8,670
Transportation – buses	410,000	74,392	335,608
Legal fees	20,000	22,975	(2,975)
Custodial costs	21,912	34,451	(12,539)
Debt service – interest	716,300	605,976	110,324
Debt service – principal	-	65,621	(65,621)
Contingency reserve	116,404	-	116,404
Capital outlay and transfers	-	18,218	(18,218)
<b>Total Expenditures</b>	<b>5,876,850</b>	<b>6,003,134</b>	<b>(126,284)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 203,379</b>	<b>\$ 614,035</b>	<b>\$ 410,656</b>

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.**

**Notes to the Schedule of Revenue, Expenditures and Change in Fund Balance –  
Budget and Actual – General Fund  
For the Year Ended June 30, 2013**

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	\$	614,035
Net increase in salary accrual		2,011
Net decrease in other accruals and activities		882
Net change in fund balance	\$	<u>616,928</u>