



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

FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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INDEPENDENT AUDITOR'S REPORT

September 27, 2016

Board of Directors
Providence Creek Academy Charter School, Inc.
Clayton, Delaware

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Providence Creek Academy Charter School, Inc. ("the School"), Clayton, Delaware, (a component unit of the State of Delaware) as of and for the year ended June 30, 2016, 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 School'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.

Board of Directors
Providence Creek Academy Charter School, Inc.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Providence Creek Academy Charter School, Inc. as of June 30, 2016, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the School has adopted the requirements of GASB Statement No. 72, "Fair Value Measurement and Application." This statement addresses accounting and financial reporting issues related to fair value measurements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Providence Creek Academy Charter School, Inc.'s 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities and each major fund in our report dated September 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, the budgetary comparison schedule on page 32, the schedule of the School's proportionate share of the net pension liability on page 33, and the schedule of School contributions on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
Providence Creek Academy Charter School, Inc.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2016 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.


BARBACANE, THORNTON & COMPANY LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED
YEAR ENDED JUNE 30, 2016**

Our discussion and analysis of the School's financial performance provides an overview of the financial activities for the year ended June 30, 2016. Please read it in conjunction with the Independent Auditor's Report on pages 1 - 3, and the School's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

The net position of the School decreased by \$78,978, or 80.34 percent. Program revenues accounted for \$544,936, or 7.50 percent of total revenues, and the general revenues accounted for \$6,716,405, or 92.50 percent of total revenues. Also, the general fund reported a positive fund balance of \$2,258,888.

USING THE ANNUAL FINANCIAL REPORT

This annual financial report consists of a series of financial statements and related notes to those statements. The statements are organized so the reader can understand the School as a whole, and then 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 in a manner that helps to answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting which is similar to the accounting used by private sector corporations. All of the year's revenues and expenses are taken into consideration regardless of when the cash is received or paid. These two statements report the School's net position and changes thereof. 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. The reader will need to consider other nonfinancial factors such as student enrollment and facility conditions in arriving at their conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major funds and fund financial statements begins on page 12. These statements provide detailed information about the most significant funds and not the School as a whole. Certain funds are required to be established by State statute, while many other funds may be established by the School to help manage money for particular purposes and compliance with various grant provisions.

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2016**

Governmental Funds

All of the School's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The statement of the governmental funds provides 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 less financial resources available to spend in the near future to finance the School's programs. The difference between governmental activities (reported in the statement of net position and the statement of activities) and the governmental funds is reconciled in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$177,284 at the close of the fiscal year. The School's total assets are comprised of cash and equivalents (20.80 percent), accounts receivable (0.26 percent), and capital assets net of depreciation (78.94 percent). The School uses capital assets to provide services; consequently, capital assets are not available for future spending. Although the School's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay such debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the debt obligations.

A summarized comparative analysis for the fiscal year 2016 to 2015 follows:

TABLE 1 – NET POSITION

	2016	2015
Current and Other Assets		
Current assets	\$ 2,919,817	\$ 3,249,047
Capital assets, net of depreciation	10,940,707	11,106,627
Total Assets	13,860,524	14,355,674
Deferred Outflows of Resources	323,898	316,927
Total Assets and Deferred Outflows of Resources	14,184,422	14,672,601
Liabilities		
Current liabilities	884,175	812,098
Long-term liabilities	13,001,108	12,821,086
Total Liabilities	13,885,283	13,633,184
Deferred Inflows of Resources	476,423	1,137,723
Total Liabilities and Deferred Inflows of Resources	14,361,706	14,770,907

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2016**

TABLE 1 – NET POSITION

(cont'd)	2016	2015
Net Position		
Net investment in capital assets	(1,185,401)	(1,218,995)
Unrestricted	1,008,117	1,120,689
Total Net Position (Deficit)	\$ (177,284)	\$ (98,306)

The School may use the balance of unrestricted net position of \$1,008,117, reflected above in Table 1, to meet future operating activities.

Table 2, which follows, reflects the School's revenues received by funding source and how the funding received was expended by function.

TABLE 2 – CHANGE IN NET POSITION

	2016	2015
General Revenues		
Charges to school districts	\$ 871,762	\$ 794,469
State aid not restricted to specific purposes	5,379,801	5,125,407
Earnings on cash and cash equivalents	195,715	172,752
Other revenues	269,127	278,787
Total General Revenues	6,716,405	6,371,415
Program Revenues		
Federal aid	377,947	401,773
Facilities rental	7,451	2,390
School cafeteria fees	76,879	106,506
Summer camp fees	82,659	67,712
Total Revenues	7,261,341	6,949,796
Expenses		
Instructional services	5,342,105	4,614,946
Support services:		
Operation and maintenance of facilities	592,364	660,720
Transportation	609,263	533,354
School food services	217,638	227,877
Interest on long-term debt	578,949	585,687
Total Expenses	7,340,319	6,622,584
Change in Net Position	\$ (78,978)	\$ 327,212

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2016**

Government Activities

The net position of the School's governmental activities decreased by \$78,978, and unrestricted net position reflects a positive balance of \$1,008,117. The decrease in net position is attributable to the increase in instructional services while revenues to fund those services have not increased in the same proportion.

The statement of activities shows the cost of program services and the charges for services, and grants and contributions offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for the governmental activities. General revenues which include charges to school districts, State aid not restricted for specific purposes, cash and investment earnings, and other local revenues must support the net cost of the programs.

	SERVICES			
	2016		2015	
	Total Cost	Net Cost (Revenue)	Total Cost	Net Cost (Revenue)
Governmental Activities				
Instructional services	\$ 5,342,105	\$ 5,016,267	\$ 4,614,946	\$ 4,290,801
Support services:				
Operation and maintenance of facilities	592,364	584,913	660,720	658,330
Transportation	609,263	609,263	533,354	533,354
School food services	217,638	5,991	227,877	(23,969)
Interest on long-term debt	578,949	578,949	585,687	585,687
	\$ 7,340,319	\$ 6,795,383	\$ 6,622,584	\$ 6,044,203

The reliance on general revenues to support the governmental activities is reflected by the net cost services' columns, which basically indicate the need for general support to fund School operations.

THE SCHOOL'S FUNDS

The governmental funds (as presented on the balance sheet on page 12) reported a fund balance of \$2,285,168, which is a decrease from the prior year's amount by \$390,848. The schedule below indicates the fund balance and the total changes in fund balance from June 30, 2015 to June 30, 2016.

	2016	2015	Increase (Decrease)
Governmental Fund Balance			
Restricted - debt service	\$ 26,280	\$ 27,780	\$ (1,500)
Assigned - specific purposes	37,939	6,261	31,678
Unassigned - general fund	2,220,949	2,641,975	(421,026)
	\$ 2,285,168	\$ 2,676,016	\$ (390,848)

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2016**

General Fund

The decrease in the School's fund balance of the general fund is due mainly to transfers to the debt service fund. This was partially offset by increases in the level of funding from charges to school districts, state sources, federal sources, contributions, and miscellaneous revenues. Expenditures increased as well; however, they increased at a higher level than the increase in revenues.

The tables that follow will assist the reader in evaluating the financial activities as compared to the prior year.

	Amounts		Percentage (%) Change
	2016	2015	
Revenues			
Charges to school districts	\$ 871,762	\$ 794,469	9.73%
State sources	5,379,801	5,125,407	4.96%
Federal sources	377,947	401,773	-5.93%
Food service revenue	76,879	106,506	-27.82%
Earnings on cash and cash investments	20,900	15,303	36.57%
Facilities rental	7,451	2,390	211.76%
Summer camp	82,659	67,712	22.07%
Contributions	24,060	65,078	-63.03%
Miscellaneous revenue	245,067	213,709	14.67%
Total Revenues	\$ 7,086,526	\$ 6,792,347	4.33%

The largest portions of general fund expenditures are for personnel costs, which include salaries and related employment costs. The School is a service-oriented organization and, as such, is very labor intensive.

	Amounts		Percentage (%) Change
	2016	2015	
Expenditures by Object			
Instructional services	\$ 5,444,087	\$ 4,756,136	14.46%
Support services:			
Operation and maintenance of facilities	315,872	355,102	-11.05%
Transportation	425,938	403,611	5.53%
School food services	221,348	232,462	-4.78%
Capital outlay	293,897	322,081	-8.75%
Debt services	460,872	457,198	0.80%
Total Expenditures by Object	\$ 7,162,014	\$ 6,526,590	9.74%

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)
YEAR ENDED JUNE 30, 2016**

GENERAL FUND BUDGET INFORMATION

The School's budget is prepared on the modified accrual basis of accounting. The most significant budgeted funds are the governmental funds. The School may amend its revenue and expenditure estimates periodically due to changing conditions. The original budget was not amended during fiscal year 2016.

CAPITAL ASSETS

The School has \$10,940,707 invested in capital assets, net of depreciation. During the current year, the School made capital acquisitions of \$286,148 and incurred depreciation.

Major capital asset events during the fiscal year included the purchases of buses for \$286,148. Detailed information regarding capital asset is reflected in Note 3 of the financial statements.

DEBT ADMINISTRATION

As of June 30, 2016, the School had total outstanding debt of \$12,126,108 in the form of bonds and a note payable. Detailed information regarding long-term debt activity is included in Note 4 of the financial statements. No new debt has been incurred in the 2015-2016 year.

Other obligations include the net pension liability, accrued vacation pay, and sick leave for School employees. More detailed information about long-term liabilities is included in Note 4 and Note 7 to the financial statements.

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.

CONTACTING 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 funding received. If you have questions about this report or need additional financial information, contact the School's Finance Office at (302) 653-6276 or by writing to 273 West Duck Creek Road, Clayton, DE 19938.

BASIC FINANCIAL STATEMENTS

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,883,339	\$ 3,205,127
Accounts receivable	36,478	43,920
Total Current Assets	<u>2,919,817</u>	<u>3,249,047</u>
NONCURRENT ASSETS:		
Land	1,585,906	1,585,906
Depreciable capital assets, net	9,354,801	9,520,721
Total Noncurrent Assets	<u>10,940,707</u>	<u>11,106,627</u>
 TOTAL ASSETS	 <u>13,860,524</u>	 <u>14,355,674</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred pension contributions	266,745	242,346
Deferred pension	57,153	74,581
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>323,898</u>	<u>316,927</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 14,184,422</u>	 <u>\$ 14,672,601</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 60,544	\$ 46,736
Accrued salaries	574,105	526,295
Accrued interest	41,801	39,570
Current portion bond and note payable	207,725	199,497
Total Current Liabilities	<u>884,175</u>	<u>812,098</u>
NONCURRENT LIABILITIES:		
Bond and note payable	11,918,383	12,126,125
Compensated absences	180,830	176,752
Net pension liability	901,895	518,209
Total Noncurrent Liabilities	<u>13,001,108</u>	<u>12,821,086</u>
 TOTAL LIABILITIES	 <u>13,885,283</u>	 <u>13,633,184</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred pension	337,043	823,528
Derivative investment liability	139,380	314,195
Total Deferred Inflows of Resources	<u>476,423</u>	<u>1,137,723</u>
 TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	 <u>14,361,706</u>	 <u>14,770,907</u>
NET POSITION (DEFICIT):		
Net investment in capital assets	(1,185,401)	(1,218,995)
Unrestricted	1,008,117	1,120,689
TOTAL NET POSITION (DEFICIT)	<u>(177,284)</u>	<u>(98,306)</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION (DEFICIT)	 <u>\$ 14,184,422</u>	 <u>\$ 14,672,601</u>

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

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Data for June 30, 2015)

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
	2016	2015	2016		2015
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ (5,342,105)	\$ 82,659	\$ 243,179	\$ (4,290,801)	
Support services:					
Operation and maintenance of facilities	(592,364)	7,451	-	(658,330)	
Transportation	(609,263)	-	-	(533,354)	
School food services	(217,638)	76,879	134,768	23,969	
Interest on long-term debt	(578,949)	-	-	(585,687)	
TOTAL GOVERNMENT ACTIVITIES	\$ (7,340,319)	\$ 166,989	\$ 377,947	(6,044,203)	
GENERAL REVENUES					
Charges to school districts			871,762	794,469	
State aid not restricted to specific purposes			5,379,801	5,125,407	
Earnings on cash and investments			195,715	172,752	
Contributions			24,060	65,078	
Other local sources			245,067	213,709	
TOTAL GENERAL REVENUES			6,716,405	6,371,415	
CHANGE IN NET POSITION			(78,978)	327,212	
NET POSITION (DEFICIT), BEGINNING OF YEAR			(98,306)	(425,518)	
NET POSITION (DEFICIT), END OF YEAR			\$ (177,284)	\$ (98,306)	

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

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016
(With Summarized Comparative Data for June 30, 2015)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>	
			<u>2016</u>	<u>2015</u>
ASSETS:				
Cash and cash equivalents	\$ 2,857,059	\$ 26,280	\$ 2,883,339	\$ 3,205,127
Accounts receivable	36,478	-	36,478	43,920
TOTAL ASSETS	<u><u>\$ 2,893,537</u></u>	<u><u>\$ 26,280</u></u>	<u><u>\$ 2,919,817</u></u>	<u><u>\$ 3,249,047</u></u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 60,544	\$ -	\$ 60,544	\$ 46,736
Accrued salaries and benefits	574,105	-	574,105	526,295
TOTAL LIABILITIES	<u><u>634,649</u></u>	<u><u>-</u></u>	<u><u>634,649</u></u>	<u><u>573,031</u></u>
FUND BALANCES:				
Restricted	-	26,280	26,280	27,780
Assigned	37,939	-	37,939	6,261
Unassigned	2,220,949	-	2,220,949	2,641,975
TOTAL FUND BALANCES	<u><u>2,258,888</u></u>	<u><u>26,280</u></u>	<u><u>2,285,168</u></u>	<u><u>2,676,016</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 2,893,537</u></u>	<u><u>\$ 26,280</u></u>	<u><u>\$ 2,919,817</u></u>	<u><u>\$ 3,249,047</u></u>

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

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION
JUNE 30, 2016**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 2,285,168

The total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statements of net position. 10,940,707

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Bond and note payable	\$ (12,126,108)	
Accrued interest	(41,801)	
Compensated absences	(180,830)	
Net pension liability	<u>(901,895)</u>	(13,250,634)

Governments are required to report investment derivative instruments at fair value in their statement of net position but not at the fund level. Fair value of the investment derivative is recorded at year end. (139,380)

Deferred inflows of resources and outflows of resources related to the School's net pension liability are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined proportion of the School's amount of the total pension liability, and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows - pension contributions	266,745	
Deferred outflows - pension	57,153	
Deferred inflows	<u>(337,043)</u>	<u>(13,145)</u>

TOTAL NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (177,284)

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

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Comparative Data for the Year Ended June 30, 2015)

	General	Debt Service	Total Governmental Funds	
	Fund	Fund	2016	2015
REVENUES				
Charges to school districts	\$ 871,762	\$ -	\$ 871,762	\$ 794,469
State sources	5,379,801	-	5,379,801	5,125,407
Federal sources	377,947	-	377,947	401,773
Food service revenue	76,879	-	76,879	106,506
Earnings on cash and cash investments	20,900	-	20,900	15,303
Facilities rental	7,451	-	7,451	2,390
Summer camp	82,659	-	82,659	67,712
Contributions	24,060	-	24,060	65,078
Miscellaneous revenue	245,067	-	245,067	213,709
TOTAL REVENUES	<u>7,086,526</u>	<u>-</u>	<u>7,086,526</u>	<u>6,792,347</u>
EXPENDITURES				
Current:				
Instructional services	5,444,087	-	5,444,087	4,756,136
Operation and maintenance of facilities	315,872	-	315,872	355,134
Transportation	425,938	-	425,938	403,611
Food services	221,348	-	221,348	232,462
Capital outlays	293,897	-	293,897	322,081
Debt service:				
Principal	125,000	74,514	199,514	186,004
Interest	335,872	240,846	576,718	586,554
TOTAL EXPENDITURES	<u>7,162,014</u>	<u>315,360</u>	<u>7,477,374</u>	<u>6,841,982</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(75,488)</u>	<u>(315,360)</u>	<u>(390,848)</u>	<u>(49,635)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	313,860	313,860	343,172
Transfers out	(313,860)	-	(313,860)	(343,172)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(313,860)</u>	<u>313,860</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(389,348)	(1,500)	(390,848)	(49,635)
FUND BALANCES, BEGINNING OF YEAR	<u>2,648,236</u>	<u>27,780</u>	<u>2,676,016</u>	<u>2,725,651</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 2,258,888</u></u>	<u><u>\$ 26,280</u></u>	<u><u>\$ 2,285,168</u></u>	<u><u>\$ 2,676,016</u></u>

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

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (390,848)

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

The governmental fund reports capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$25,000 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 286,148	
Depreciation expense	<u>(452,068)</u>	(165,920)

The issuance of long-term debt (e.g., notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal payments on bonds and note payable	199,514
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Interest on long-term debt and the derivative instrument in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and, thus, requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 172,584

Some expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(4,078)
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Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the School's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists. 109,770

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ (78,978)</u></u>
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The accompanying notes are an integral part of these financial statements.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

Providence Creek Academy Charter School, Inc. ("the School") is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. An initial charter is granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state, and federal funds, they may not charge tuition.

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

Reporting Entity

The School is a special purpose government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Entity-wide and Fund Financial Statements

The entity-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Amounts reported as program revenues include 1) charges to students for special fees, supplies, food, or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

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

Separate financial statements are provided for the governmental funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Charges to the school districts, state appropriations, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental funds:

General Fund – The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Debt Service Fund – These funds are maintained to accumulate resources for the payment of interest and principal on long-term general obligation debt.

Encumbrance Accounting

Encumbrance accounting is employed by the School's governmental funds. Encumbrances (i.e. purchase orders and contracts) outstanding at year end are reported as assigned fund balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. At June 30, 2016, the School had encumbrances outstanding in the amount of \$37,939.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

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

Receivables

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

Capital Assets

Capital assets, which include land improvements and furniture and equipment, are reported in the entity-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 or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

Land improvements	15 years
Buildings	40 years
Furniture and equipment	5 - 7 years
Vehicles	5 years

Derivative Investment

The derivative investment is recorded at fair value.

In establishing the fair value of the derivative investment, the School uses the following hierarchy. The lowest available level of valuation available is used for all investments.

Level 1 – Valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Valuations based on quoted prices of similar products in active markets or identical products in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

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

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the entity-wide financial statements. A liability for these amounts is reported in the governmental fund only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation – Twelve-month employees can accumulate up to 42 days of vacation. Any days in excess of 42 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination and retirement at the current rate of pay.

Sick Leave – Sick leave allowances are as follows: teachers shall be allowed 10 days of sick leave per year, and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the per diem rate of pay not to exceed 90 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

Earned unused sick leave may be transferred to another state agency if the employee remains a state employee or is later rehired as a state employee. Sick time does not accrue while an employee is on leave of absence, unless otherwise required by law.

The School's compensated absences liability was \$180,830 at June 30, 2016.

Fund Equity

Fund balance will be displayed in the following classification (if applicable) depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of Directors. The Board is the highest level of decision-making authority for the School. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

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

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

Unassigned – all other spendable amounts.

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

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Any remaining portions of net position are reflected as unrestricted. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and then unrestricted resources as they are needed.

Income Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. The School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The School did not engage in any unrelated business activities during the fiscal year. Management believes more likely than not that its tax-exempt status and tax positions will be sustained if examined by authorities.

Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

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

Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The School reports deferred pension contributions resulting from pension contributions subsequent to the measurement date of the net pension liability which will be amortized over future periods. In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents a source of net position that applies to future periods. The School reports certain items which represent differences related to changes in the net pension liability which will be amortized over future periods as well as a deferred inflow related to the change in the net present value of the derivative instrument described in Note 6.

Implementation of GASB Statement

During the year ended June 30, 2016, the School implemented GASB Statement No. 72, "Fair Value Measurement and Application." GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes and applying fair value to certain investments, as well as improving disclosures related to all fair value measurements. The effects of this statement have been included in the School's financial statement footnotes.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2016, the School has a cash equivalent balance of \$2,883,339. Of that amount, \$2,854,823 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as 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 of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

At June 30, 2016, the reported amount of the School's deposits not held with the State Treasurer's Office was \$28,516, and the bank balance was \$29,581. All of the balance was covered by federal depository insurance.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	<u>Balance 07/01/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 06/30/16</u>
Government Activities				
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
Furniture and equipment	568,120	-	-	568,120
Vehicles	703,257	286,148	-	989,405
Total Capital Assets Being Depreciated	11,938,611	286,148	-	12,224,759
Accumulated depreciation	<u>(2,417,890)</u>	<u>(452,068)</u>	-	<u>(2,869,958)</u>
Total Capital Assets Being Depreciated, Net	<u>9,520,721</u>	<u>(165,920)</u>	-	<u>9,354,801</u>
Governmental Activities, Net	<u>\$11,106,627</u>	<u>\$ (165,920)</u>	<u>\$ -</u>	<u>\$10,940,707</u>

Depreciation expense was charged to the following governmental activities:

Operation and maintenance of facilities	\$ 268,743
Transportation	<u>183,325</u>
	<u>\$ 452,068</u>

NOTE 4 LONG-TERM DEBT

On December 1, 2009, the School issued \$6,835,000 of Taxable Series 2008A Bonds. The bonds bear interest at 3.51%, interest payments are payable semi-annually on December 1 and June 1 each year. The bonds mature December 1, 2038.

\$ 6,500,000

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT (cont'd)

On December 1, 2009, the School entered into a note agreement with USDA in the principal amount of \$6,000,000. The note was for the financing of the School building and is collateralized by the building, supplies, furniture and fixtures, equipment, and vehicles of the School. The note bears interest at 4.25% and calls for monthly payments consisting of principal and interest of \$26,280. The note matures December 1, 2049.

5,626,108

TOTAL BONDS AND NOTE PAYABLE

\$ 12,126,108

A schedule of changes in debt is as follows:

	Balance 07/01/15	Additions	Deletions	Balance 06/30/16	Amounts Due within One Year
Bonds payable	\$ 6,625,000	\$ -	\$ 125,000	\$ 6,500,000	\$ 130,000
Note payable	5,700,622	-	74,514	5,626,108	77,725
	<u>12,325,622</u>	<u>-</u>	<u>199,514</u>	<u>12,126,108</u>	<u>207,725</u>
Compensated absences	176,752	4,078	-	180,830	-
	<u>\$ 12,502,374</u>	<u>\$ 4,078</u>	<u>\$ 199,514</u>	<u>\$ 12,306,938</u>	<u>\$ 207,725</u>

Interest expense was \$578,949 for the year ended June 30, 2016.

The total principal and interest maturities are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 207,725	\$ 465,785	\$ 673,510
2018	221,094	457,853	678,947
2019	234,608	449,425	684,033
2020	248,275	440,493	688,768
2021	262,101	431,051	693,152
2022 - 2026	1,538,949	2,055,111	3,594,060
2027 - 2031	2,037,759	1,668,598	3,706,357
2032 - 2036	2,690,826	1,238,241	3,929,067
2037 - 2041	2,445,063	690,984	3,136,047
2042 - 2046	1,224,016	352,783	1,576,799
2047 - 2050	1,015,692	78,637	1,094,329
	<u>\$12,126,108</u>	<u>\$ 8,328,961</u>	<u>\$20,455,069</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 FUND BALANCE

As of June 30, 2016, fund balances are composed of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Restricted:			
Debt service	\$ -	\$ 26,280	\$ 26,280
Assigned:			
Encumbrances	37,939	-	37,939
Unassigned	<u>2,220,949</u>	<u>-</u>	<u>2,220,949</u>
Total Fund Balance	<u>\$ 2,258,888</u>	<u>\$ 26,280</u>	<u>\$ 2,285,168</u>

NOTE 6 INVESTMENT DERIVATIVE INSTRUMENT

In June 2008, the GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" ("GASB 53"). GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. All derivatives are to be reported on the statement of net position at fair value; depending on whether a derivative is deemed a hedge or an investment instrument under GASB 53, the changes in fair value are reported either on the statement of net position as a deferral, or in the statement of activities as investment revenue or loss.

The School engaged an independent party to perform the valuation on the derivative instrument that it holds, a basis swap. Under GASB 53, the School's basis swap does not qualify for hedge reporting since there is no identified financial risk being hedged by the basis swap that can be expressed as an investment derivative, and the change in fair value is reported in the statement of activities.

Terms and Fair Value

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The terms and recurring fair value measurement of the School's Swap Portfolio are as follows:

	<u>Initial Notional</u>	<u>Start Date</u>	<u>Maturity Date</u>	<u>Fair Value</u>	<u>Level 3</u>
Investment Derivative Basis Swap - Bonds	\$6,835,000	12/18/09	01/05/17	\$ (139,380)	\$ (139,380)

Credit Risk

As of June 30, 2016, the School was not exposed to credit risk on its outstanding swap. The School is exposed to credit risk in the amount of the derivative's fair value. This amount may increase if interest rates increase in the future. However, when interest rates decline and the fair

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 6 INVESTMENT DERIVATIVE INSTRUMENT (cont'd)

value of the swaps is negative, the School is not exposed to credit risk. The School will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

Basis Risk

Basis risk is the risk that the interest rate paid by the School on the underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The School bears risk on its swap. The swap has basis risk since the School receives a percentage of LIBOR to offset the actual variable bond rate the School pays on its bonds. The School is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the School pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

Tax Risk

Tax risk is a specific type of basis risk. Tax risk is a permanent mismatch between the interest rate paid on the School's underlying variable-rate bonds and the rate received on the swap caused by a reduction or elimination in the benefits of the tax exemption for municipal bonds; e.g. a tax cut that results in an increase in the ratio of tax-exempt to taxable yields. The School is receiving 67 percent of LIBOR (a taxable index) on the swaps and would experience a shortfall relative to the rate paid on its bonds if marginal tax rates decrease relative to expected levels, thus increasing the overall cost of its synthetic fixed rate debt.

Termination Risk

The School or the counterparty may terminate the swap if the other party fails to perform under the terms of the respective contracts. If the swap is terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, the School would be liable to the counterparty for a payment equal to the swap's fair value.

NOTE 7 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan ("the Plan"), which is a cost-sharing, multiple-employer defined benefit public employees' retirement system ("the State PERS") defined by the Delaware Code.

The State of Delaware General Assembly is responsible for setting benefits and contributions, and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees ("the Board").

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

The following are brief descriptions of the Plan in effect as of June 30, 2015. For a more complete description, please refer to the Delaware Employees' Pension Plan Comprehensive Annual Financial Report. Separately issued financial statements for the Plan may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904; by calling 1-800-722-7300; or by visiting the PERS website at www.delawarepensions.com.

Plan Description and Eligibility

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

There are two tiers within this plan: 1) employees hired prior to January 1, 2012, and 2) employees hired on or after January 1, 2012.

Benefits Provided

Service Benefits

Final average monthly compensation (employees hired on or after January 1, 2012 may not include overtime in pension compensation) multiplied by 2.0 percent and multiplied by years of credited service prior to January 1, 1997, plus final average monthly compensation multiplied by 1.85 percent and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three periods of twelve consecutive months of compensation.

Vesting

Employees hired before January 1, 2012 vest in the plan after five years of credited service. Employees hired on or after January 1, 2012 vest in the plan after ten years of credited service.

Retirement

Employees hired before January 1, 2012 may retire at age 62 with five years of credited service; at age 60 with 15 years of credited service; or after 30 years of credited service at any age. Employees hired on or after January 1, 2012 may retire at age 65 with at least 10 years of credited service; at age 60 with 20 years of credited service; or after 30 years of credited service at any age.

Disability Benefits

Disability benefits for those employees hired before January 1, 2012 are offered using the same calculations as the Service Benefits described above. Employees in this program must have five years of credited service. In lieu of disability pension benefits, over 90 percent of the members of

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

this plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Employees hired on or after January 1, 2012 are also included in the Disability Insurance Program.

Survivor and Burial Benefits

In the event of the death of a member of the Plan, the eligible survivor receives 50 percent of the benefits received under the pension (or 75 percent with a three percent reduction of the benefit). If the employee is an active member of the Plan with at least five years of credited service, the eligible survivor receives 75 percent of the benefit the active employee would have received at age 62.

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

Contributions

Member Contributions

Employees hired before January 1, 2012 contribute three percent of earnings in excess of \$6,000. Employees hired on or after January 1, 2012 contribute five percent of earnings in excess of \$6,000.

Employer Contributions

Employer contributions are determined by the Board of Pension Trustees. For the year ended June 30, 2016, the rate of the employer contribution was 9.58 percent of covered payroll. The School's contribution to PERS for the year ended June 30, 2016 was \$266,745.

PRI Contribution

All reporting units participating in the State PERS make contributions to a PRI fund which accumulates resources to fund ad hoc post-retirement increases granted by the General Assembly. The increases are funded over a five-year period from the PRI fund. The allocation of the contribution from the PRI fund to the Pension Trust is a reduction of the net pension liability of each participating employer.

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2016, the School reported a liability of \$901,895 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

net pension liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2015, the School's proportion was 0.1356 percent, which was a decrease of 0.0068 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized a pension expense of \$156,975. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ -	\$ 275,760
Changes in proportions	57,153	41,052
Contributions subsequent to the date of measurement	266,745	-
Differences between actual and expected experience	-	20,231
	<u>\$ 323,898</u>	<u>\$ 337,043</u>

An amount of \$266,745 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date (June 30, 2015) and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2017	\$ 69,766
2018	69,766
2019	69,766
2020	69,766
2021	826
	<u>\$ 279,890</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

Actuarial Assumptions

The total pension liability as of the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. These actuarial valuations used the following actuarial assumptions, applied to all periods:

- Investment return – 7.2 percent, including inflation of 3.0 percent
- Salary increases – 3.5 percent to 11.5 percent, including inflation of 3.0 percent
- Cost-of-living adjustments – ad hoc

The total pension liabilities are measured based on the assumptions pertaining to interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the actual experience deviates, the larger the impact on future financial statements.

Mortality rates were based on the Sex Distinct RP-2000 Combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (“ad hoc COLAs”), as they are not substantively automatic. The primary considerations relevant to making this determination include the historical patterns of granting the changes and the consistency in the amounts of the changes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Asset Allocation</u>
Domestic equity	5.7%	36.5%
International equity	5.7%	16.5%
Fixed income	2.0%	22.6%
Alternative investments	7.8%	19.6%
Cash and equivalents	0.0%	4.8%

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 PENSION PLAN (cont'd)

Discount Rate

The discount used to measure the total pension liability was 7.2 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates determined by the Board of Pension Trustees, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.2 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.2 percent) or one percentage point higher (8.2 percent) than the current rate.

	1% Decrease 6.2%	Current Rate Discount Rate 7.2%	1% Increase 8.2%
School's proportionate share of the net pension liability (asset)	\$ 2,038,149	\$ 901,895	\$ (429,425)

Pension Plan Fiduciary Net Position

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

NOTE 8 LEASING ARRANGEMENTS

The School leases its copier equipment under three operating lease arrangements expiring through March 2018. Total rental expense for the year ended June 30, 2015 was \$10,983.

At June 30, 2016, the minimum future rental payments under noncancelable leasing arrangements for the remaining period and in the aggregate are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 10,734
2018	<u>2,497</u>
Total	<u>\$ 13,231</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in any of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE 10 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various outstanding commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants

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

NOTE 11 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	\$	54,692
Communications	\$	3,614
Land, buildings, and facilities	\$	12,613
Supplies and materials	\$	279,601
Capital outlay - equipment	\$	2,748

The excess expenditures were covered by amounts under budget in other areas.

NOTE 12 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 27, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Charges to school districts	\$ 871,762	\$ 871,762	\$ -
State sources	5,474,964	5,379,801	(95,163)
Federal sources	256,824	377,947	121,123
Food service revenue	252,457	76,879	(175,578)
Earnings on cash and cash investments	-	20,900	20,900
Facilities rental	-	7,451	7,451
Summer camp	-	82,659	82,659
Contributions	-	24,060	24,060
Miscellaneous revenue	348,633	245,067	(103,566)
Carryover from prior year	281,063	-	(281,063)
	<u>7,485,703</u>	<u>7,086,526</u>	<u>(399,177)</u>
EXPENDITURES			
Current:			
Salaries	3,431,286	3,485,978	(54,692)
Employment costs	1,618,799	1,579,433	39,366
Contractual services	401,961	323,036	78,925
Communications	7,516	11,130	(3,614)
Public utilities service	175,000	153,255	21,745
Insurance	70,000	68,097	1,903
Land, buildings, and facilities	2,525	15,138	(12,613)
Repairs and maintenance	151,003	79,382	71,621
Supplies and materials	412,196	691,797	(279,601)
Capital outlays:			
Equipment	291,148	293,896	(2,748)
Debt service:			
Principal	450,000	125,000	325,000
Interest	350,000	335,872	14,128
TOTAL EXPENDITURES	<u>7,361,434</u>	<u>7,162,014</u>	<u>199,420</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>124,269</u>	<u>(75,488)</u>	<u>(199,757)</u>
OTHER FINANCING USES			
Transfers out	-	(313,860)	(313,860)
Contingency reserve	(124,269)	-	124,269
TOTAL OTHER FINANCING USES	<u>(124,269)</u>	<u>(313,860)</u>	<u>(189,591)</u>
NET CHANGE IN FUND BALANCE	-	(389,348)	(389,348)
FUND BALANCE, BEGINNING OF YEAR	<u>2,648,236</u>	<u>2,648,236</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,648,236</u>	<u>\$ 2,258,888</u>	<u>\$ (389,348)</u>

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>MEASUREMENT DATE</u>	
	<u>JUNE 30, 2015</u>	<u>JUNE 30, 2014</u>
School's proportion of the net pension liability	0.1356%	0.1424%
School's proportion of the net pension liability - dollar value	\$ 901,895	\$ 518,209
School's covered employee payroll	\$ 2,528,337	\$ 2,613,619
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	35.67%	19.83%
Plan fiduciary net position as a percentage of the total pension liability	95.80%	95.80%

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

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL CONTRIBUTIONS**

CONTRIBUTIONS	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 266,745	\$ 241,709
Contributions in relation to the contractually required contribution	<u>266,745</u>	<u>241,709</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 2,784,395	\$ 2,528,337
Contributions as a percentage of covered-employee payroll	9.58%	9.56%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SUPPLEMENTARY INFORMATION

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 3016

	State Allocation	Local Funding	Federal Funding	Totals
ASSETS				
Cash and cash equivalents	\$ 86,248	\$ 2,770,811	-	\$ 2,857,059
Accounts receivable	-	-	36,478	36,478
Due from other funding source	-	5,253	-	5,253
TOTAL ASSETS	<u>\$ 86,248</u>	<u>\$ 2,776,064</u>	<u>\$ 36,478</u>	<u>\$ 2,898,790</u>
LIABILITIES AND FUND BALANCES (DEFICIT)				
LIABILITIES:				
Accounts payable	\$ 25,884	\$ 34,660	-	\$ 60,544
Accrued salaries and benefits	497,209	45,671	31,225	574,105
Due to other funding source	-	-	5,253	5,253
TOTAL LIABILITIES	<u>523,093</u>	<u>80,331</u>	<u>36,478</u>	<u>639,902</u>
FUND BALANCES (DEFICIT):				
Assigned	-	37,939	-	37,939
Unassigned (deficit)	(436,845)	2,657,794	-	2,220,949
TOTAL FUND BALANCE (DEFICIT)	<u>(436,845)</u>	<u>2,695,733</u>	<u>-</u>	<u>2,258,888</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 86,248</u>	<u>\$ 2,776,064</u>	<u>\$ 36,478</u>	<u>\$ 2,898,790</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 3016

	State Allocation	Local Funding	Federal Funding	Totals
REVENUES				
Charges to school districts	\$ -	\$ 871,762	\$ -	\$ 871,762
State sources	5,379,801	-	-	5,379,801
Federal sources	-	-	243,179	243,179
Food service revenue	-	76,879	134,768	211,647
Earnings on cash and cash investments	-	20,900	-	20,900
Facilities rental	-	7,451	-	7,451
Summer camp	-	82,659	-	82,659
Contributions	-	24,060	-	24,060
Miscellaneous revenue	-	245,067	-	245,067
TOTAL REVENUES	<u>5,379,801</u>	<u>1,328,778</u>	<u>377,947</u>	<u>7,086,526</u>
EXPENDITURES				
Current:				
Instructional services	4,307,966	892,942	243,179	5,444,087
Operation and maintenance of facilities	272,880	42,992	-	315,872
Transportation	425,938	-	-	425,938
Food services	-	86,580	134,768	221,348
Capital outlays	285,488	8,409	-	293,897
Debt service	17,941	442,931	-	460,872
TOTAL EXPENDITURES	<u>5,310,213</u>	<u>1,473,854</u>	<u>377,947</u>	<u>7,162,014</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>69,588</u>	<u>(145,076)</u>	<u>-</u>	<u>(75,488)</u>
OTHER FINANCING USES				
Transfer out	(53,555)	(260,305)	-	(313,860)
TOTAL OTHER FINANCING USES	<u>(53,555)</u>	<u>(260,305)</u>	<u>-</u>	<u>(313,860)</u>
NET CHANGE IN FUND BALANCES	16,033	(405,381)	-	(389,348)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(452,878)</u>	<u>3,101,114</u>	<u>-</u>	<u>2,648,236</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (436,845)</u>	<u>\$ 2,695,733</u>	<u>\$ -</u>	<u>\$ 2,258,888</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

EXPENDITURES

Current:

Salaries	\$ 3,485,978
Employment costs	1,579,433
Contractual services	323,036
Communications	11,130
Public utilities service	153,255
Insurance	68,097
Land, buildings, and facilities	15,138
Repairs and maintenance	79,382
Supplies and materials	691,797

Capital outlays:

Equipment	293,896
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Debt service:

Principal	199,514
Interest	576,718

TOTAL EXPENDITURES

\$ 7,477,374

INDEPENDENT AUDITOR'S
REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

September 27, 2016

Board of Directors
Providence Creek Academy Charter School, Inc.
Clayton, Delaware

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Providence Creek Academy Charter School, Inc., ("the School") Clayton, Delaware, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise The School's basic financial statements, and have issued our report thereon dated September 27, 2016.

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

Board of Directors
Providence Creek Academy Charter School, Inc.

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

Barbacane, Thornton & Company LLP

BARBACANE THORNTON & COMPANY LLP