

**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, 2011**



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

**JUNE 30, 2011**

**CONTENTS**

<b>REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS</b>	<b>1</b>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	<b>2</b>
<b>FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet – Governmental Fund	10
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets	11
Statement of Revenue, Expenditures and Change in Fund Balance – Governmental Fund	12
Reconciliation of the Statement of Revenue, Expenditures and Change in Fund Balance – Governmental Fund to the Statement of Activities	13
Notes to the Financial Statements	14
<b>REQUIRED SUPPLEMENTAL INFORMATION</b>	
Schedule of Revenue, Expenditures and Change in Fund Balance – Budget and Actual – General Fund	24
Notes to the Schedule of Revenue, Expenditures and Change in Fund Balance – Budget and Actual – General Fund	25



## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the governmental activities, and the governmental 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, 2011, which collectively comprise the Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental funds of the School as of June 30, 2011, and the respective changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Hunt Valley, Maryland  
November 15, 2011

*SB & Company, LLC*

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

## **Management's Discussion and Analysis June 30, 2011**

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, 2011. This information should be read in conjunction with the Report of Independent Public Accountants and the School's financial statements.

### **Financial Highlights**

The School's net assets decreased by \$533,929, and total \$434,304, as of June 30, 2011.

The primary changes in the School's Statement of Net Assets as of June 30, 2011, compared to June 30, 2010, is related to an increase in the completion of the capital assets project and the replacement of bond debt with a loan and related interest rate swap. The School's capital assets increased by approximately \$81,000 during the year ended as a result of the completion of some school facilities and the purchase of equipment and a vehicle.

Total revenue for the year (both general and program-related) increased by \$204,111, during the year ended June 30, 2011, compared to the year ended June 30, 2010, primarily due to increased operating Federal grants.

Total expenses for the year ended were \$6,625,489, an increase of \$239,898, compared to the prior year, primarily due to inflationary factors and expenses related to the new school building and costs related to debt.

### **Using This Annual Financial Report**

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

### **Reporting the School as a Whole**

#### *The Statement of Net Assets and Statement of Activities*

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

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

## **Management's Discussion and Analysis June 30, 2011**

### **Reporting the School as a Whole (continued)**

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

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

### **Reporting the School's Governmental Funds**

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

This discussion and analysis of the School's financial statements provides an overview of the School's financial activities for the year ended June 30, 2011, with the fiscal year 2010 data presented for comparative purposes. The emphasis of discussion about these statements is on the current-year activity. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis. There are four financial statements presented: the Statement of Net Assets; the Statement of Activities; Balance Sheet-Governmental Fund; and Statement of Revenue, Expenditures and Change in Fund Balance-Governmental Fund.

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Management's Discussion and Analysis June 30, 2011

### Statement of Net Assets

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

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

### Government-Wide Financial Analysis

As noted earlier, net assets serve over time as a useful indicator of the School's financial position. In the case of the School, assets exceeded liabilities by \$434,304, at the close of the year ended. Note that the invested in capital assets balance is reported net of related debt and accumulated depreciation. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

	As of June 30,	
	2011	2010
<b>ASSETS</b>		
Current assets	\$ 2,174,677	\$ 2,193,333
Noncurrent assets	788,835	814,682
Capital assets, net	11,807,806	12,008,909
<b>Total Assets</b>	<b>14,771,318</b>	<b>15,016,924</b>
<b>LIABILITIES</b>		
Current liabilities	823,637	791,592
Noncurrent liabilities	13,513,377	13,257,099
<b>Total Liabilities</b>	<b>14,337,014</b>	<b>14,048,691</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	(924,637)	(826,091)
Restricted net assets	26,280	22,895
Unrestricted	1,332,661	1,771,429
<b>Total Net Assets</b>	<b>\$ 434,304</b>	<b>\$ 968,233</b>

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Management's Discussion and Analysis June 30, 2011

### Government-Wide Financial Analysis (continued)

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

	Governmental Activities For the Years Ended June 30,	
	2011	2010
<b>Revenue</b>		
General revenue:		
Charges to school districts	\$ 568,312	\$ 658,802
Payments from primary government	4,587,490	4,527,619
Other revenue	36,362	169,092
Program revenue:		
Charges for services	255,629	242,766
Operating grants and contributions	643,767	289,170
<b>Total Revenue</b>	<b>6,091,560</b>	<b>5,887,449</b>
<b>Expenses</b>		
Instructional services	3,882,136	3,441,381
Support service:		
Operation and maintenance of facilities	2,126,330	2,347,841
Transportation	404,834	345,288
School lunch services and other	212,189	251,081
<b>Total Expenses</b>	<b>6,625,489</b>	<b>6,385,591</b>
<b>Changes in Net Assets</b>	<b>\$ (533,929)</b>	<b>\$ (498,142)</b>

### Governmental Activities

Net assets of the School's governmental activities decreased in the current year by \$533,929, and unrestricted net assets reflect a positive balance of \$434,304. The unrestricted net asset balance is a result of investments made in capital assets. The decrease in net assets is primarily the result of depreciation expense, increased interest expense and the decrease in the valuation of the interest rate swap.

### The School's Funds

The School's governmental funds (as presented on the balance sheet) reported a positive fund balance of \$1,507,714, as of June 30, 2011, compared to prior year's balance of \$1,642,719.

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

**Management's Discussion and Analysis  
June 30, 2011**

**Governmental Funds**

The School's fund balance increase 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, 2011 and 2010.

	<b>For the Years Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenue</b>		
Charges to school districts	\$ 568,312	\$ 658,802
State aid	4,587,490	4,527,619
Federal aid	643,767	289,170
Other sources	291,991	411,858
<b>Total Revenue</b>	<b>6,091,560</b>	<b>5,887,449</b>
<b>Expenditures</b>		
Program services:		
Instruction	3,882,136	3,441,381
Operation and maintenance of facilities	892,429	1,646,403
Transportation and other	617,023	596,369
Debt service:		
Principal	39,305	6,315,000
Interest	714,301	-
Issuance costs	-	194,739
Capital outlays:		
Buildings and equipment	81,371	781,199
<b>Total Expenditures</b>	<b>6,226,565</b>	<b>12,975,091</b>
<b>Other Financing Source</b>		
Debt proceeds	-	6,000,000
Net changes in fund balance	(135,005)	(1,087,642)
Fund balance, beginning of year	1,642,719	2,730,361
<b>Fund Balance, End of Year</b>	<b>\$ 1,507,714</b>	<b>\$ 1,642,719</b>

The fund balance of the School decreased by \$135,005, to \$1,507,714, primarily as a result of amounts expended for capital assets and debt service.

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

## **Management's Discussion and Analysis June 30, 2011**

### **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 2011.

### **Capital Assets**

The School has invested \$11,807,806, in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled \$81,371, and depreciation expense was \$282,474.

### **Debt Administration**

As of June 30, 2011, the School had approximately \$6,835,000 in bond issuances and \$5,960,695 in loans payable. During the year ended June 30, 2011, the School made required principal payments of approximately \$30,000 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 and additional \$315,000 of the bonds. Concurrent to the loan, the School entered into a fixed-rate interest rate swap to mitigate interest rate risk on the remaining \$6,835,000 of bonds payable which a floating interest rate. In addition to this, the School also has a liability for an arbitrated settlement outstanding of \$275,000.

Other obligations include accrued vacation pay and sick leave for School employees. More detailed information about long-term liabilities are included in 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 Charles Taylor, Managing Director at (302) 653-6276 or by writing 355 West Duck Road, Clayton, Delaware 19938.

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

**Statement of Net Assets  
As of June 30, 2011**

**ASSETS**

**Current Assets**

Amounts held by the State of Delaware	\$ 2,148,397
Restricted cash and cash equivalents	26,280
<b>Total Current Assets</b>	<u>2,174,677</u>

**Noncurrent Assets**

Deferred financing costs, net of amortization	788,835
Capital assets, net of depreciation	11,807,806

<b>Total Assets</b>	<u>14,771,318</u>
---------------------	-------------------

**LIABILITIES**

**Current Liabilities**

Accrued salaries and related costs	540,532
Accrued expenses	65,922
Compensated absences, current portion	105,531
Current portion of bonds and loan payable	63,252
Accumulated arbitration settlement, current portion	48,400
<b>Total Current Liabilities</b>	<u>823,637</u>

**Noncurrent Liabilities**

Compensated absences	84,618
Bonds payable	6,835,000
Loan payable	5,897,443
Swap liability payable	448,816
Accumulated arbitration settlement	247,500
<b>Total Noncurrent Liabilities</b>	<u>13,513,377</u>

<b>Total Liabilities</b>	<u>14,337,014</u>
--------------------------	-------------------

**NET ASSETS**

Invested in capital assets, net of related debt	(924,637)
Restricted net assets	26,280
Unrestricted deficit	1,332,661
<b>Total Net Assets</b>	<u>\$ 434,304</u>

The accompanying notes are an integral part of this schedule.

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

**Statement of Activities  
For the Year Ended June 30, 2011**

	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expenses) Revenue and Change in Net Assets</b>
		<b>Charges For Services</b>	<b>Operating Grants and Contributions</b>	<b>Total Governmental Activities</b>
<b>Governmental Activities:</b>				
Instructional services	\$ 3,882,136	\$ -	643,767	\$ (3,238,369)
Supporting services:				
Operation and maintenance of facilities	1,532,085	-	-	(1,532,085)
Transportation	404,834	-	-	(404,834)
School lunch services and other	212,189	255,629	-	43,440
Interest	594,245	-	-	(594,245)
<b>Total</b>	<b>\$ 6,625,489</b>	<b>\$ 255,629</b>	<b>\$ 643,767</b>	<b>(5,726,093)</b>
 <b>General Revenue:</b>				
Charges to school districts				568,312
State aid not restricted to specific purposes				4,587,490
Other revenue				36,362
<b>Total General Revenue</b>				<b>5,192,164</b>
 Change in net assets				(533,929)
Net assets, beginning of year				968,233
<b>Net Assets, End of Year</b>				<b>\$ 434,304</b>

The accompanying notes are an integral part of this schedule.

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

**Balance Sheet – Governmental Fund  
As of June 30, 2011**

<b>ASSETS</b>	<b>General Fund</b>
Amounts held by the State of Delaware	\$ 2,148,397
Restricted cash and cash equivalents	26,280
<b>Total Assets</b>	<b>\$ 2,174,677</b>
 <b>LIABILITIES</b>  	
Accrued salaries and related costs	\$ 540,532
Compensated absences, current portion	105,531
Arbitration settlement	20,900
<b>Total Liabilities</b>	<b>666,963</b>
 <b>Fund Balance</b>	
Unreserved	<b>1,507,714</b>
 <b>Total Liabilities and Fund Balance</b>	 <b>\$ 2,174,677</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 Assets  
As of June 30, 2011**

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

Total Fund Balance – Governmental Fund	\$ 1,507,714
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The total cost of capital assets is \$12,858,099, and the related accumulated depreciation is \$822,966.	11,807,806
Deferred financing costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.	788,835
Long-term debt liabilities, accrued interest, swap liability, and the arbitration settlement are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(13,585,433)
Long-term compensated absence liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	<u>(84,618)</u>
<b>Total Net Assets – Governmental Activities</b>	<b><u><u>\$ 434,304</u></u></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, 2011**

	<u>General Fund</u>
<b>Revenue</b>	
State support	\$ 4,587,490
Federal support	643,767
Charges to school districts	568,312
School lunch services – charges for services	255,629
Misc revenue	36,362
<b>Total Revenue</b>	<u>6,091,560</u>
<b>Expenditures</b>	
Program services:	
Instructional services	3,882,136
Supporting services:	
Operation and maintenance of facilities	892,429
Transportation	404,834
School lunch services and other	212,189
Capital outlays	81,371
Debt service:	
Principal	39,305
Interest	714,301
<b>Total Expenditures</b>	<u>6,226,565</u>
Net change in fund balance	(135,005)
Fund balance, beginning of year	1,642,719
<b>Fund Balance, End of Year</b>	<u>\$ 1,507,714</u>

**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, 2011**

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

Net changes in fund balance – Governmental Funds	\$ (135,005)
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 \$282,474 exceeded capital outlays of \$81,371.	(201,103)
Governmental funds report expenditures for the issuance of debt as expenditures. However, in the Statement of Activities, the cost is allocated over the life of the debt and is reported as interest expense.	(25,847)
Governmental funds report debt principal payments and other activity as expenditures. However in the Statement of Activities, this activity is not recorded.	39,305
Governmental funds report interest expense as expended. However, in the Statement of Activities, this activity is recorded on the accrual basis. This represents the change in the accrued interest accrual.	120,056
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.	(351,032)
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.	<u>19,697</u>
<b>Change in Net Assets – Governmental Activities</b>	<b>\$ <u><u>(533,929)</u></u></b>

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

## **Notes to the Financial Statements**

**June 30, 2011**

### **1. DESCRIPTION OF THE ENTITY**

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

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **Government-Wide and Fund Financial Statements**

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

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

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

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

## **Notes to the Financial Statements**

**June 30, 2011**

### **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.

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Notes to the Financial Statements

June 30, 2011

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

#### 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.

#### Capital Assets

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial individual cost of more than \$25,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the assets are not capitalized.

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

#### Interest Rate Swap Agreement

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

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

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

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

**Notes to the Financial Statements**

**June 30, 2011**

**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, 2011, 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.

**3. AMOUNTS HELD BY THE STATE OF DELAWARE**

As of June 30, 2011, the School had amounts held by the State of Delaware totaling \$2,148,397 and is part of an investment pool controlled by the State Treasurer's Office in Dover, Delaware. All investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

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

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Notes to the Financial Statements

June 30, 2011

### 4. CASH AND CASH EQUIVALENTS

#### Policies and Practices

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

### 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Change</u>	<u>Balance</u> <u>June 30, 2011</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	59,500	31,871	91,371
Furniture and equipment	568,120	-	568,120
<b>Total Capital Assets</b>	<u>12,831,260</u>	<u>81,371</u>	<u>12,912,631</u>
Less accumulated depreciation:			
Land improvements	-	(2,475)	(2,475)
Buildings	(243,323)	(265,443)	(508,766)
Vehicles	(10,908)	(14,556)	(25,464)
Furniture and equipment	(568,120)	-	(568,120)
Total Depreciation	<u>(822,351)</u>	<u>(282,474)</u>	<u>(1,104,825)</u>
<b>Total Capital Assets, Net</b>	<u>\$ 12,008,909</u>	<u>\$ (201,103)</u>	<u>\$ 11,807,806</u>

Depreciation expense was \$282,274 for the year ended June 30, 2011, 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, 2011

### 6. DEBT

In 2009, the School issued bonds of \$13,150,000 for the construction of new school facilities. The bonds were secured by revenue from Kent County, Delaware. In December 2009, \$6,315,000 of the bonds was redeemed, and the School entered into a loan agreement with the United States Department of Agriculture in the amount of \$6,000,000. The outstanding balance of the loan payable was approximately \$6 million as of June 30, 2011. The interest rate at June 30, 2011, 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, 2011, the School had one outstanding interest rate swap agreement with a commercial bank (S&P A+ rated as of June 30, 2011), with a notional principal amount of \$6,835,000. This agreement effectively changes the School's interest rate exposure on the \$6,835,000 variable rate bond due through 2017 to a fixed 3.15% rate. The interest rate swap matures in April, 2017. The School is exposed to credit loss in the event of nonperformance by the counterparties to the interest rate swap agreement. However, the School does not anticipate nonperformance by the counterparties.

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

#### *Governmental Activity*

\$13,000,000 2008A series bond issuance for the building of a new school facility, the amortization remains open until completion of the construction and are held at a variable weekly rate. Total amount due by October 1, 2038. \$ 6,835,000

On December 1, 2009, the school entered into a loan backed by the United States Department of Agriculture in the amount of \$6,000,000. This loan is collateralized by the fixed assets of the School and bears interest at 4.25% per annum. The loan was interest only until January 2011, at which time principal and interest payments commence. The loan term is through January 2049. 5,960,695

Interest rate swap, maturing April 2017, marked to market annually. 448,816  
**Total** \$ 13,244,511

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

**Notes to the Financial Statements**

**June 30, 2011**

**6. DEBT (continued)**

*Rollforward of long term debt*

	<b>June 30, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2011</b>	<b>Amounts due in one year</b>
2008 Series A	\$ 6,835,000	\$ -	\$ -	\$ <b>6,835,000</b>	\$ -
USDA Loan	6,000,000	-	102,557	<b>5,897,443</b>	63,252
Interest Rate Swap	97,784	351,032	-	<b>448,816</b>	-
Arbitration settlement	295,900	-	-	<b>295,900</b>	48,400
<b>Total</b>	<b>13,228,684</b>	<b>351,032</b>	<b>102,557</b>	<b>13,477,159</b>	<b>111,652</b>
Compensated absences	167,388	22,761	-	<b>190,149</b>	105,531
<b>Total Debt</b>	<b>\$ 13,396,072</b>	<b>\$ 373,793</b>	<b>\$ 102,557</b>	<b>\$ 13,667,308</b>	<b>\$ 217,183</b>

Annual debt service requirements to maturity as of June 30, 2011 was as follows:

<b>Fiscal years ending</b>	<b>2008 Series A</b>			<b>USDA</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ -	\$ 325,346	\$ 325,346	\$ 63,252	\$ 252,108	\$ 315,360
2013	-	325,346	325,346	65,993	249,367	315,360
2014	95,000	323,085	418,085	68,854	246,506	315,360
2015	115,000	318,087	433,087	71,839	243,521	315,360
2016	125,000	312,375	437,375	74,952	240,408	315,360
2017-2021	750,000	1,462,510	2,212,510	426,395	1,150,405	1,576,800
2022-2026	1,015,000	1,033,991	2,048,991	527,149	1,049,651	1,576,800
2027-2031	1,390,000	669,256	2,059,256	651,711	925,089	1,576,800
2032-2036	1,890,000	581,910	2,471,910	805,717	771,083	1,576,800
2037-2041	1,455,000	106,743	1,561,743	996,105	580,695	1,576,800
2042-2046	-	-	-	1,231,487	345,313	1,576,800
2047-2050	-	-	-	977,241	72,479	1,049,720
<b>Total</b>	<b>\$ 6,835,000</b>	<b>\$ 5,458,649</b>	<b>\$ 12,293,649</b>	<b>\$ 5,960,695</b>	<b>\$ 6,126,625</b>	<b>\$ 12,087,320</b>

**Compensated Absences**

As of June 30, 2011, the School had a liability of \$190,149 for compensated absences.

# PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

## Notes to the Financial Statements

June 30, 2011

### 7. ARBITRATION SETTLEMENT

The School settled a dispute with its former management company over fees and costs associated with the start-up of the School. No payments or activity occurred in fiscal year 2011, and the School has accrued interest of \$20,900, as of June 30, 2011. Annual debt service requirements to maturity are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2012	\$ 48,400
2013	27,500
2014	27,500
2015	27,500
2016	27,500
2017-2021	137,500
<b>Total</b>	<b>\$ 295,900</b>

### 8. PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. For the year ended June 30, 2011, 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.

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

## **Notes to the Financial Statements**

**June 30, 2011**

### **9. RISK MANAGEMENT**

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

### **10. COMMITMENTS AND CONTINGENCIES**

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

**REQUIRED SUPPLEMENTAL INFORMATION**

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

**Schedule of Revenue, Expenditures and Change in Fund Balance –  
Budget and Actual – General Fund  
For the Year Ended June 30, 2011**

	<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	\$ 4,536,824	\$ 4,587,490	\$ 50,666
Federal support	914,982	643,767	(271,215)
Charges to school districts	664,919	568,312	(96,607)
School lunch services and other services	275,000	255,629	(19,371)
Other revenues	143,332	36,362	(106,970)
<b>Total Revenue</b>	<b>6,535,057</b>	<b>6,091,560</b>	<b>(443,497)</b>
<b>Expenditures</b>			
Salaries	4,108,108	3,951,060	157,048
Textbooks	43,036	49,276	(6,240)
Contracted services	150,000	166,979	(16,979)
Professional development	2,400	14,739	(12,339)
Insurance	45,000	54,963	(9,963)
Miscellaneous	151,755	36,275	115,480
Utilities	132,000	191,134	(59,134)
Computers	25,000	21,566	3,434
Repairs and maintenance	93,000	139,423	(46,423)
Promotional	10,000	7,570	2,430
Supplies and materials	158,586	234,979	(76,393)
Food service	278,000	212,189	65,811
Transportation – buses	392,000	86,733	305,267
Legal fees	20,000	5,627	14,373
Custodial costs	41,000	30,504	10,496
Debt service – interest	780,000	714,301	65,699
Debt service – principal	-	39,305	(39,305)
Capital outlay and transfers	105,172	156,979	(51,807)
<b>Total Expenditures</b>	<b>6,535,057</b>	<b>6,113,602</b>	<b>421,455</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ (22,042)</b>	<b>\$ (22,042)</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, 2011**

The School’s budget is prepared on the cash basis of accounting. The amount reported as “net change in fund balance” on the budgetary basis derives from the cash basis of accounting. Revenues are reported when received and expenditures are reported when paid. This amount differs from the “net change in fund balance” reported in the Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Funds” on page 12.

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	\$ (22,042)
Net increase in salary accrual	(73,891)
Net decrease in other accruals and activities	(39,072)
Net change in fund balance	<u><u>\$ (135,005)</u></u>