

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, 2014



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2014

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet – Governmental Fund	12
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position	13
Statement of Revenue, Expenditures and Change in Fund Balance – Governmental Fund	14
Reconciliation of the Statement of Revenue, Expenditures and Change in Fund Balance – Governmental Fund to the Statement of Activities	15
Notes to the Financial Statements	16
Report of Independent Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenue, Expenditures and Change in Fund Balance – Budget and Actual – General Fund	28
Notes to the Schedule of Revenue, Expenditures and Change in Fund Balance – Budget and Actual – General Fund	29



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and governmental fund of Providence Creek Academy Charter School, Inc. (the School), a component unit of the State of Delaware, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014, and the changes in its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014, 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.

Hunt Valley, Maryland
September 23, 2014

SB & Company, LLC

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2014

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, 2014. This information should be read in conjunction with the Report of Independent Public Accountants and the School's financial statements.

Financial Highlights

The School's net position increased by \$388,399, to total net position of \$489,572, as of June 30, 2014.

The primary changes in the School's Statement of Net Position as of June 30, 2014, compared to June 30, 2013, is related to an adjustment for the fair market value of the swap liability in the amount of \$110,108. Additionally, in the fiscal year ended June 30, 2014, the School implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result, net position of the School has been restated by \$762,988, as of July 1, 2012, due to the write off of previous bond issuance costs which were being amortized over the life of the bonds.

Total revenue for the year (both general and program-related) increased by \$171,301, during the year ended June 30, 2014, compared to the year ended June 30, 2013, primarily due to increases in payments from the primary government and charges to school districts as a result of increased enrollment.

Total expenses for the year ended were \$6,400,071, an increase of \$381,088, compared to the prior year. The increase was primarily due to higher instructional services and transportation costs to support increased enrollment.

Using This Annual Financial Report

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

Reporting the School as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School as a whole and about its activities to help answer this question. These two statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year revenue and expenses are taken into consideration regardless of when cash was received or paid. These two statements report the School's net position and changes in them. The change in net position provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. A reader will need to consider other non-financial factors such as student enrollment stability and facility conditions to arrive at a conclusion regarding the overall health of the School.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2014

Reporting the School's Governmental Funds

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

This discussion and analysis of the School's financial statements provides an overview of the School's financial activities for the year ended June 30, 2014, with the fiscal year 2013 data presented for comparative purposes. The emphasis of discussion about these statements is on the current-year activity. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis. There are four financial statements presented: the Statement of Net Position; the Statement of Activities; Balance Sheet-Governmental Fund; and Statement of Revenue, Expenditures and Change in Fund Balance-Governmental Fund.

Statement of Net Position

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

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

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Management's Discussion and Analysis
June 30, 2014**

Government-Wide Financial Analysis

As noted earlier, net position serves over time as a useful indicator of the School's financial position. In the case of the School, assets exceeded liabilities by \$489,572, at the close of the year. Note that the net investment in capital assets balance is reported net of related debt and accumulated depreciation. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

	As of June 30,	
	2014	2013
		<i>as restated</i>
ASSETS		
Current assets	\$ 3,087,628	\$ 2,844,274
Capital assets, net	11,181,563	11,258,437
Total Assets	14,269,191	14,102,711
LIABILITIES		
Current liabilities	891,113	825,616
Noncurrent liabilities	12,416,862	12,594,170
Total Liabilities	13,307,975	13,419,786
DEFERRED INFLOWS		
Accumulated fair value of swap liability	471,644	581,752
NET POSITION		
Net investment in capital assets	(1,330,063)	(1,417,043)
Restricted net position	28,065	28,065
Unrestricted	1,791,570	1,490,151
Total Net Position	\$ 489,572	\$ 101,173

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2014

Government-Wide Financial Analysis (continued)

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

	Governmental Activities	
	For the Years Ended June 30,	
	2014	2013
Revenue		<i>as restated</i>
General revenue:		
Charges to school districts	\$ 937,939	\$ 832,121
Payments from primary government	5,094,018	4,823,730
Program revenue:		
Charges for services	516,736	653,675
Operating grants and contributions	239,777	307,643
Total Revenue	6,788,470	6,617,169
Expenses		
Instructional services	4,144,693	3,813,391
Support service:		
Operation and maintenance of facilities	1,644,443	1,566,823
Transportation	403,985	372,439
School lunch services and other	206,950	266,330
Total Expenses	6,400,071	6,018,983
Changes in Net Position	\$ 388,399	\$ 598,186

Governmental Activities

Net position of the School's governmental activities increased in the current year by \$388,399, and unrestricted net position reflect a positive balance of \$489,572. The unrestricted net position balance is a result of investments made in capital assets. The increase in net position is primarily the result of increased funding and the increase in the valuation of the interest rate swap.

The School's Funds

The School's governmental funds (as presented on the balance sheet) reported a positive fund balance of \$2,414,027, as of June 30, 2014, compared to prior year's balance of \$2,200,733.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2014

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, 2014 and 2013.

	For the Years Ended June 30,	
	2014	2013
Revenue		
Charges to school districts	\$ 937,939	\$ 832,121
State aid	5,094,018	4,823,730
Federal aid	239,777	307,643
Other sources	516,736	653,675
Total Revenue	6,788,470	6,617,169
Expenditures		
Program services:		
Instruction	4,122,710	3,815,402
Operation and maintenance of facilities	841,390	880,204
Transportation and other	583,923	638,769
Debt service:		
Principal	163,854	65,621
Interest	573,651	600,245
Capital outlays:		
Buildings and equipment	289,648	-
Total Expenditures	6,575,176	6,000,241
Net changes in fund balance	213,294	616,928
Fund balance, beginning of year	2,200,733	1,583,805
Fund Balance, End of Year	\$ 2,414,027	\$ 2,200,733

The fund balance of the School increased by \$213,294, to \$2,414,027, primarily as a result of increased operating expenses related to instruction services and principal debt repayments.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2014

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 2014.

Capital Assets

The School has invested \$11,181,563, in capital assets, net of depreciation, all of which is attributed to governmental activities. During the year ended June 30, 2014, the School purchased \$289,648, related to transportation assets. Current year disposals related to vehicles no longer in service amounted to \$27,012, net of accumulated depreciation, which has been recorded as a loss on disposal in the accompanying statement of activities for the year ended June 30, 2014. Depreciation expense was \$339,510, for the year ended June 30, 2014.

Debt Administration

As of June 30, 2014, the School had approximately \$6,740,000 outstanding in bond issuances and \$5,771,626, in loans payable. During the year ended June 30, 2014, the School made required principal payments of \$163,854, on the bond issuances and loans payable. Concurrent to the loan, the School has entered into a fixed-rate interest rate swap to mitigate interest rate risk on the bonds payable which a floating interest rate.

Other obligations include accrued vacation pay and sick leave for School employees. More detailed information about long-term liabilities is 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.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2014

Contact the School's Financial Management

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact, Shanna Simmens, Director of Finance and Personnel at (302) 653-6276 or by writing to 273 West Duck Road, Clayton, Delaware 19938.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Statement of Net Position
As of June 30, 2014**

ASSETS	
Current Assets	
Amounts held by the State of Delaware	\$ 3,059,563
Restricted cash and cash equivalents	<u>28,065</u>
Total Current Assets	3,087,628
Noncurrent Assets	
Capital assets, net accumulated of depreciation	<u>11,181,563</u>
Total Assets	<u>14,269,191</u>
LIABILITIES	
Current Liabilities	
Accounts payable	35,221
Accrued salaries and related costs	524,076
Accrued expenses	31,063
Compensated absences, current portion	114,304
Current portion of bonds and loan payable	<u>186,449</u>
Total Current Liabilities	<u>891,113</u>
Noncurrent Liabilities	
Compensated absences	91,685
Bonds payable	6,625,000
Loan payable	<u>5,700,177</u>
Total Noncurrent Liabilities	<u>12,416,862</u>
Total Liabilities	<u>13,307,975</u>
DEFERRED INFLOWS	
Accumulated fair value of swap liability	<u>471,644</u>
NET POSITION	
Net investment in capital assets	(1,330,063)
Restricted net position	28,065
Unrestricted net position	<u>1,791,570</u>
Total Net Position	<u>\$ 489,572</u>

The accompanying notes are an integral part of this statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Statement of Activities
For the Year Ended June 30, 2014**

	<u>Program Revenues</u>			<u>Net (Expenses) Revenue and Change in Net Assets</u>
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities:				
Instructional services	\$ 4,144,693	\$ -	\$ 239,777	\$ (3,904,916)
Supporting services:				
Operation and maintenance of facilities	1,180,900	-	-	(1,180,900)
Transportation	403,985	-	-	(403,985)
School lunch services and other	206,950	516,736	-	309,786
Interest	463,543	-	-	(463,543)
Total	<u>\$ 6,400,071</u>	<u>\$ 516,736</u>	<u>\$ 239,777</u>	<u>(5,643,558)</u>
General Revenue:				
Charges to school districts				937,939
State aid not restricted to specific purposes				5,094,018
Total General Revenue				<u>6,031,957</u>
Change in net position				388,399
Net position, beginning of year, as restated				101,173
Net Position, End of Year				<u>\$ 489,572</u>

The accompanying notes are an integral part of this statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Balance Sheet – Governmental Fund
As of June 30, 2014**

ASSETS	General Fund
Amounts held by the State of Delaware	\$ 3,059,563
Restricted cash and cash equivalents	<u>28,065</u>
Total Assets	<u><u>\$ 3,087,628</u></u>
 LIABILITIES 	
Accrued expenses	\$ 35,221
Accrued salaries and related costs	524,076
Compensated absences, current portion	<u>114,304</u>
Total Liabilities	<u>673,601</u>
 Fund Balance	
Unreserved	<u>2,414,027</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 3,087,628</u></u>

The accompanying notes are an integral part of this statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Reconciliation of the Balance Sheet of
Governmental Fund to the Statement of Net Position
As of June 30, 2014**

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

Total Fund Balance – Governmental Fund	\$ 2,414,027
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 \$13,175,094, and the related accumulated depreciation is \$1,993,531.	11,181,563
Long-term debt liabilities, accrued interest and swap liability are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(13,014,333)
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>(91,685)</u>
Total Net Position – Governmental Activities	<u><u>\$ 489,572</u></u>

The accompanying notes are an integral part of this statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Statement of Revenue, Expenditures and Change in Fund Balance –
Governmental Fund
For the Year Ended June 30, 2014**

	<u>General Fund</u>
Revenue	
State support	\$ 5,094,018
Federal support	239,777
Charges to school districts	937,939
Charges for services	516,736
Total Revenue	<u>6,788,470</u>
Expenditures	
Program services:	
Instructional services	4,122,710
Supporting services:	
Operation and maintenance of facilities	841,390
Transportation	376,973
School lunch services and other	206,950
Capital outlays	289,648
Debt service:	
Principal	163,854
Interest	573,651
Total Expenditures	<u>6,575,176</u>
Net change in fund balance	213,294
Fund balance, beginning of year	2,200,733
Fund Balance, End of Year	<u>\$ 2,414,027</u>

The accompanying notes are an integral part of this statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Reconciliation of the Statement of Revenue, Expenditures and
Change in Fund Balance – Governmental Fund to the Statement of Activities
For the Year Ended June 30, 2014**

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

Net change in fund balance – Governmental Funds	\$	213,294
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 \$339,510, and loss on disposals of \$27,012, exceeded capital outlays of \$289,648.		(76,874)
Governmental funds report debt principal payments and other activity as expenditures. However in the Statement of Activities, this activity is not recorded.		163,854
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.		110,108
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.		(21,983)
Change in Net Position – Governmental Activities	\$	<u>388,399</u>

The accompanying notes are an integral part of this statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2014

1. DESCRIPTION OF THE ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2014

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 that have an original 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.

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.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest Rate Swap Agreement

The School accounts for its interest rate swap contract in accordance with accounting principles generally accepted in the United States, *Accounting and Financial Reporting for Derivative Instruments*. The School uses the interest rate swap agreement principally to manage the risk that changes in interest rates have on its floating rate long-term debt.

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

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

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, 2014, no employees were eligible for retirement.

Vacation

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

Sick Leave

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

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Inflows/Outflows of Resources

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

New Accounting Pronouncements

In fiscal year ended June 30, 2014, the School implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to either (a) properly classify items that were previously reported as assets and liabilities as deferred outflows of resources and (b) recognize these items as outflows of resources (expenses) or inflows of resources (revenues). Bond issuance costs, which were previously deferred over the life of the existing debt, are now recognized as an expense. This is recorded as a prior period adjustment as of July 1, 2012.

Net position of the School has been restated by \$762,988, as of July 1, 2012, due to the write off of previous bond issuance costs which were being amortized over the life of the bonds.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2013, and 2014, respectively. In January 2013, GASB issued Statement No. 69, *Government Combination and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Guarantees*, effective for periods beginning after June 15, 2013. The School will implement these statements as of their effective dates. While the School is still in the process of determining the effect of implementing these GASB statements, it is expected that Statement No. 68 will have a material effect on the financial position of the School.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2014

3. AMOUNTS HELD BY THE STATE OF DELAWARE

As of June 30, 2014, the School had amounts held by the State of Delaware totaling \$3,059,563, and is part of an investment pool controlled by the State Treasurer's Office in Dover, Delaware. All investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

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

4. CASH AND CASH EQUIVALENTS

Policies and Practices

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

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2014

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance			Balance
	June 30, 2013	Additions	Deletions	June 30, 2014
Capital assets not being depreciated:				
Land	\$ 1,585,906	\$ -	\$ -	\$ 1,585,906
Capital assets being depreciated:				
Land improvements	49,500	-	-	49,500
Buildings	10,617,734	-	-	10,617,734
Vehicles	128,371	289,648	(64,185)	353,834
Furniture and equipment	568,120	-	-	568,120
Total Capital Assets	12,949,631	289,648	(64,185)	13,175,094
Less accumulated depreciation:				
Land improvements	(9,075)	(3,300)	-	(12,375)
Buildings	(1,039,652)	(265,443)	-	(1,305,095)
Vehicles	(74,347)	(70,767)	37,173	(107,941)
Furniture and equipment	(568,120)	-	-	(568,120)
Total Accumulated Depreciation	(1,691,194)	(339,510)	37,173	(1,993,531)
Total Capital Assets, Net	\$ 11,258,437	\$ (49,862)	\$ (27,012)	\$ 11,181,563

Depreciation expense was \$339,510, for the year ended June 30, 2014, 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, 2014

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 \$5.7 million as of June 30, 2014. The interest rate at June 30, 2014, 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, 2014, the School had one outstanding interest rate swap agreement with a commercial bank (S&P A+ rated as of June 30, 2014), 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. \$ 6,740,000

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. 5,771,626

Interest rate swap, maturing April 2017, marked to market annually. 471,644
Total \$ 12,983,270

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2014

6. DEBT (continued)

Rollforward of long term debt

	June 30, 2013	Additions	Reductions	June 30, 2014	Amounts due in one year
2008 Series A	\$ 6,835,000	\$ -	\$ 95,000	\$ 6,740,000	\$ 115,000
USDA Loan	5,840,480	-	68,854	5,771,626	71,432
Interest Rate Swap	581,752	-	110,108	471,644	-
Total	13,257,232	-	273,962	12,983,270	186,432
Compensated absences	185,031	20,958	-	205,989	114,304
Total Long term Liabilities	\$ 13,442,263	\$ 20,958	\$ 273,962	\$ 13,189,259	\$ 300,736

Annual debt service requirements to maturity as of June 30, 2014, were as follows:

Fiscal years ending	2008 Series A			USDA		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 115,000	\$ 318,087	\$ 433,087	\$ 71,432	\$ 243,521	\$ 314,953
2016	125,000	312,375	437,375	74,525	240,408	314,933
2017	130,000	306,306	436,306	77,756	237,159	314,915
2018	140,000	299,880	439,880	81,125	233,769	314,894
2019	150,000	292,978	442,978	84,641	230,234	314,875
2020-2024	900,000	1,344,700	2,244,700	481,515	1,092,535	1,574,050
2025-2029	1,225,000	1,094,205	2,319,205	595,294	978,105	1,573,399
2030-2034	1,675,000	751,485	2,426,485	735,967	836,627	1,572,594
2035-2039	2,280,000	285,124	2,565,124	909,872	661,726	1,571,598
2040-2044	-	-	-	1,124,880	445,496	1,570,376
2045-2050	-	-	-	1,534,619	179,064	1,713,683
Total	\$ 6,740,000	\$ 5,005,140	\$ 11,745,140	\$ 5,771,626	\$ 5,378,644	\$ 11,150,270

Compensated Absences

As of June 30, 2014, the School had a liability of \$205,989, for compensated absences.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2014

7. PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. For the year ended June 30, 2014, the State contributed 21.02% of the State's share of employees' salary.

Certain significant plan provisions follow:

Early Retirement:

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

Service Retirement:

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

Disability Retirement:

Five Years Service and Proof of Disability

Vested Pension:

An Employee Can Vest Pension Rights After Five Years of Service

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

8. RISK MANAGEMENT

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

9. COMMITMENTS AND CONTINGENCIES

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



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

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

To the Board of Directors
Providence Creek Academy
Charter School, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the governmental fund of Providence Creek Academy Charter School, Inc. (the School), a component unit of the State of Delaware, as of and for the year ended June 30, 2014, 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 23, 2014.

Internal Control over Financial Reporting

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

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

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



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

Compliance and Other Matters

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

Purpose of this Report

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

Hunt Valley, Maryland
September 23, 2014

SB & Company, LLC

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, 2014**

	Original and Final Budgeted Amounts	Actual Amounts Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
Revenue			
State Support	\$ 4,976,497	\$ 4,976,497	\$ -
Federal Support	287,229	239,777	(47,452)
Charges to school districts	925,778	937,939	12,161
School lunch services and other services	275,000	261,080	(13,920)
Other revenues	117,521	378,601	261,080
Total Revenue	6,582,025	6,793,894	211,869
Expenditures			
Salaries and benefits	3,674,644	3,545,544	129,100
Utilities	165,000	151,506	13,494
Facility - mortgage	850,000	725,053	124,947
Transportation – buses	706,000	715,475	(9,475)
Food service	275,000	250,492	24,508
Textbooks and instructional supplies	137,000	113,951	23,049
Building maintenance and custodial services	82,000	80,756	1,244
Other expenses	291,250	308,608	(17,358)
Contingency reserve	113,902	-	113,902
Total Expenditures	6,294,796	5,891,385	403,411
Net Change in Fund Balance	\$ 287,229	\$ 902,509	\$ 615,280

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, 2014**

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 Change in Fund Balance – Governmental Fund” on page 15.

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	\$ 902,509
Net increase in salary accrual	19,637
Net decrease in other accruals and activities	(708,852)
Net change in fund balance	<u>\$ 213,294</u>