

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

**Financial Statements Together with
Reports of Independent Public Accountants**

For the Year Ended June 30, 2008



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

June 30, 2008

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Fund	11
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets	12
Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Fund	13
Reconciliation of the Statement of Revenue, Expenditures and Change in Fund Balance of Governmental Fund to the Statement of Activities	14
Notes to the Financial Statements	15
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	22
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of Revenue, Expenditures and Change in Fund Balance – Budget and Actual – General Fund	25
Notes to the Schedule of Revenue, Expenditures and Change in Fund Balance – Budget and Actual – General Fund	26
OTHER INFORMATION	
Schedule of Findings and Questioned Costs	27



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

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 funds of Providence Creek Academy Charter School, Inc. (the School) as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the governmental funds of the School as of June 30, 2008, and the respective related changes in financial position and net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008 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, 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 results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

The Management's Discussion and Analysis on pages three through eight is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The schedule of revenue, expenditures and change in fund balance – budget and actual – general fund is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Hunt Valley, Maryland
September 12, 2008

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis June 30, 2008

Our discussion and analysis of the Providence Creek Academy Charter School, Inc.'s (the "School") financial performance provides an overview of the School's financial activities for the year ended June 30, 2008. This information should be read in conjunction with the Independent Public Accountants' Report and the School's financial statements.

Financial Highlights

The School's net assets increased by \$515,689 and total \$1,041,892 as of June 30, 2008.

The primary changes in the School's Statement of Net Assets as of June 30, 2008 compared to June 30, 2007 related to an increase in capital assets as a result of the construction of new buildings. The School's capital assets increased by approximately \$2.5 million during the year ended June 30, 2008 as the result of new additions net of current year depreciation expense. The School's liabilities increased by approximately \$1.6 million primarily as the result of growth in the year-end accruals for expenditures, salary, associated taxes, benefits, costs and debt issued for capital assets. Most of these accruals relate to the School's teaching staff working on a 10-month school year basis and is compensated over a full 12-month payment period, resulting in a two-month accrual as of June 30, 2008 and 2007 and the costs incurred for the new building.

Total revenue for the year (both general and program-related) increased by \$252,163 during the year ended June 30, 2008 compared to the year ended June 30, 2007, primarily due to increased revenue per student.

Total expenses for the year ended June 30, 2008 were \$5,046,919 an increase of \$417,225 compared to the prior year, primarily due to an increase in instructional costs.

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.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis (continued)
June 30, 2008

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 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 is received or paid.

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. The reader will need to consider other non-financial factors such as student enrollment stability and facility conditions in arriving at a conclusion regarding the overall health of the School.

Reporting the School's Governmental Funds

Governmental Funds

The School's activities are reported in a governmental fund, which focus on how money flows into and out of this fund and the balances left at year end available for spending in future periods. This fund is 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 is reconciled in the basic financial statements.

This discussion and analysis of Providence Creek Academy Charter School, Inc.'s (the "School") financial statements provides an overview of the School's financial activities for the year ended June 30, 2008 with the fiscal year 2007 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; and Statement of Revenue, Expenditures and Changes in Fund Balance.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis (continued) June 30, 2008

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 a government's financial position. In the case of the School, assets exceeded liabilities by \$1,041,892 at the close of the year ended June 30, 2008. 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.

	NET ASSETS	
	As of June 30,	
	2008	2007
ASSETS		
Current assets	\$ 973,634	\$ 1,174,382
Noncurrent assets	-	100,000
Capital assets, net	2,731,101	263,115
Total Assets	3,704,735	1,537,497
LIABILITIES		
Current liabilities	2,141,524	520,706
Noncurrent liabilities	521,319	490,588
Total Liabilities	2,662,843	1,011,294
NET ASSETS		
Invested in capital assets	1,345,195	104,984
Unrestricted	(303,303)	421,219
Total Net Assets	\$ 1,041,892	\$ 526,203

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis (continued)
June 30, 2008

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.

CHANGES IN NET ASSETS

	Governmental Activities	
	For the Years Ended June 30,	
	2008	2007
Revenue		
General revenue		
Charges to school districts	\$ 723,668	\$ 460,273
Payments from primary government	4,389,218	4,386,225
Program revenue		
Charges for services	229,026	226,221
Operating grants and contributions	220,696	237,726
Total Revenue	5,562,608	5,310,445
Expenses		
Instructional services	3,862,550	3,715,934
Support service		
Operation and maintenance of facilities	851,646	777,996
Transportation	204,047	27,444
School lunch services and other	128,676	108,320
Total Expenses	5,046,919	4,629,694
Change in net assets	\$ 515,689	\$ 680,751

Governmental Activities

Net assets of the School's governmental activities decreased in the current year by \$1,915,235 and unrestricted net assets reflect a negative balance of \$1,146,990. The negative unrestricted net asset balance is a result of investments made in capital assets. The School plans to fund this deficit by issuing debt for its construction payables and refinancing the debt in a long term bond issuance. The increase in net assets is primarily the result of increased fees for students and effective cost management.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis (continued) June 30, 2008

The School's Funds

The School's governmental funds (as presented on the balance sheet) reported a negative fund balance of \$1,146,990 as of June 30, 2008 compared to prior year's balance of \$768,245. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2008 and 2007.

Governmental Funds

The School's fund balance decrease is due to a variety of factors. The tables that follows assists in illustrating the financial activities and balance of governmental funds.

CHANGES IN FUNDS BALANCE

	For the Years Ended June 30,	
	2008	2007
Revenue		
Charges to school districts	\$ 723,668	\$ 460,273
State aid	4,389,218	4,397,508
Federal aid	220,696	226,443
Other sources	229,026	226,221
Total revenue	5,562,608	5,310,445
Expenditures		
Current		
Instruction	3,767,357	3,614,857
Operation and maintenance of facilities	758,246	674,696
Transportation and other	318,129	135,764
Debt service		
Principal	158,131	22,922
Interest	14,594	12,100
Capital outlays		
Buildings and equipment	2,461,386	281,123
Total expenditures	7,477,843	4,741,462
Other financing source		
Debt proceeds	-	181,123
Net change in fund balance	(1,915,235)	750,106
Fund balance, beginning of year	768,245	18,139
Fund (deficit) balance, end of year	\$ (1,146,990)	\$ 768,245

The fund balance of the School decreased by \$1,915,235 to \$(1,146,990) as a result of investment in capital assets.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Management's Discussion and Analysis (continued) June 30, 2008

General Fund Budget Information

The School's budget is prepared on the modified accrual basis of accounting. The School may amend its revenue and expenditure estimates periodically due to changing conditions. The budget was amended during fiscal year 2008.

Capital Assets

The School has \$1,345,195 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled \$2,561,386 and depreciation expense was \$93,400. The School is building three new buildings to house the School's operations to replace existing rental structures. The buildings are expected to be completed during fiscal year 2009.

Debt Administration

As of July 1, 2006, the School had \$275,000 of outstanding debt. During the year ended June 30, 2007, the School entered into a debt agreement for buses for approximately \$181,000 and made principal payments of approximately \$22,000. As of July 1, 2007, the School had approximately \$433,000 of outstanding debt. During the year ended June 30, 2008, the School entered into a \$12 million construction loan (drawing approximately \$1.4 million to fund the construction of the new buildings) and made principle payments of approximately \$158,000.

Other obligations include accrued vacation pay and sick leave for School employees. More detailed information about long-term liabilities is included in Note 6 to the financial statements.

Economic Outlook/Factors expected to have an effect on future operations

The School is 100% 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.

Contacts 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, 2008**

ASSETS

Current assets

Cash and cash equivalents	\$ 961,908
Receivables from other governmental entities	11,726
Total current assets	<u>973,634</u>

Noncurrent assets

Capital assets, net of depreciation	<u>2,731,101</u>
-------------------------------------	------------------

Total Assets	<u><u>3,704,735</u></u>
---------------------	-------------------------

LIABILITIES

Current liabilities

Accounts payable	264,517
Accrued salaries, related costs, and interest	470,201
Accumulated arbitration settlement	20,900
Current portion of debt	1,385,906
Total current liabilities	<u>2,141,524</u>

Noncurrent liabilities:

Compensated absences	246,319
Long-term debt	275,000
Total noncurrent liabilities	<u>521,319</u>

Total Liabilities	<u><u>2,662,843</u></u>
--------------------------	-------------------------

NET ASSETS

Invested in capital assets	1,345,195
Unrestricted deficit	(303,303)
Total Net Assets	<u><u>\$ 1,041,892</u></u>

The accompanying notes are an integral part of this financial statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Statement of Activities
For the Year Ended June 30, 2008**

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expenses) Revenue and Change in Net Assets
		Charges For Services	Operating Grants and Contributions		Total Governmental Activities
Governmental activities:					
Instructional services	\$ 3,862,550	\$ -	\$ 220,696	\$ -	\$ (3,641,854)
Supporting services					
Operation and maintenance of facilities	851,646	-	-	-	(851,646)
Transportation	204,047	-	-	-	(204,047)
School lunch services and other	<u>128,676</u>	<u>229,026</u>	<u>-</u>	<u>-</u>	<u>100,350</u>
Total	<u>\$ 5,046,919</u>	<u>\$ 229,026</u>	<u>\$ 220,696</u>	<u>\$ -</u>	<u>\$ (4,597,197)</u>
General revenue:					
Charges to School Districts					723,668
State aid not restricted to specific purposes					<u>4,389,218</u>
Total general revenue					<u>5,112,886</u>
Change in net assets					515,689
Net assets, beginning of year					<u>526,203</u>
Net assets, end of year					<u>\$ 1,041,892</u>

The accompanying notes are an integral part of this financial statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Balance Sheet – Governmental Fund
As of June 30, 2008**

ASSETS	General Fund	Capital Projects	Total
Cash and cash equivalents	\$ 961,908	\$ -	\$ 961,908
Receivables	11,726	-	11,726
Total Assets	\$ 973,634	\$ -	\$ 973,634
LIABILITIES			
Accounts payable	\$ 15,408	\$ 249,109	\$ 264,517
Accrued salaries, related costs and interests	462,059	8,142	470,201
Construction loan to be refinanced	-	1,385,906	1,385,906
Total Liabilities	477,467	1,643,157	2,120,624
Fund balance (deficit)			
Unreserved	496,167	(1,643,157)	(1,146,990)
Total Liabilities and Fund Balance	\$ 973,634	\$ -	\$ 973,634

The accompanying notes are an integral part of this balance sheet.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Reconciliation of the Balance Sheet of
Governmental Fund to the Statement of Net Assets
As of June 30, 2008**

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

Total Fund Deficit – Governmental Funds	\$ (1,146,990)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. The total cost of capital assets is \$3,129,506 and the related accumulated depreciation is \$398,405.	2,731,101
Long-term debt liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(295,900)
Long-term compensated absence liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(246,319)
Total Net Assets – Governmental Activities	<u>\$ 1,041,892</u>

The accompanying notes are an integral part of this financial statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Statement of Revenue, Expenditures and Change in Fund Balance –
Governmental Fund
For the Year Ended June 30, 2008**

	General Fund	Capital Projects	Total
Revenue			
State support	\$ 4,389,218	\$ -	\$ 4,389,218
Federal support	220,696	-	220,696
Charges to school districts	723,668	-	723,668
School lunch services – charges for services	229,026	-	229,026
Total revenue	5,562,608	-	5,562,608
Expenditures			
Current			
Instructional services	3,767,357	-	3,767,357
Supporting services			
Operation and maintenance of facilities	758,246	-	758,246
Transportation	204,047	-	204,047
School lunch services and other	114,082	-	114,082
Capital outlays	-	2,461,386	2,461,386
Debt Service			
Principal	158,131	-	158,131
Interest	6,452	8,142	14,594
Total Expenditures	5,008,315	2,469,528	7,477,843
Other financing sources			
Transfers	(826,371)	826,371	-
Net change in fund balance	(272,078)	(1,643,157)	(1,915,235)
Fund balance, beginning of year	768,245	-	768,245
Fund Balance (Deficit), End of Year	\$ 496,167	\$ (1,643,157)	\$ (1,146,990)

The accompanying notes are an integral part of this financial statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Reconciliation of the Statement of Revenue, Expenditures and
Change in Fund Balance of Governmental Fund to the Statement of Activities
For the Year Ended June 30, 2008**

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

Net Change in Fund Balance – Governmental Fund	\$ (1,915,235)
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 capital outlays \$2,461,386 exceeded depreciation \$93,400	2,367,986
Expenditures for increased accruals for compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported in the funds.	(95,193)
Expenditures for payments of principal balances on debt require the use of current financial resources and, therefore are not reported in the Statement of Activities.	158,131
Change in Net Assets – Governmental Activities	<u>\$ 515,689</u>

The accompanying notes are an integral part of this financial statement.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2008

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 more 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 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.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

(continued)

The governmental fund 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.

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 two funds which are the general fund and capital projects fund (both are governmental fund types).

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.

Cash and Cash Equivalents

Cash and cash equivalents of the School are controlled by the State Treasurer's Office in Dover, Delaware (see Note 3).

Receivables

All receivables are due from other governmental agencies and are considered fully collectible and no allowance for bad debt has been provided.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. The School defines capital assets as assets with an initial individual cost of more than \$15,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized.

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

Debt

Debt includes a construction note which is expected to be refinanced through the issuance of bonds during 2009. Therefore, the School has accounted for the debt as a Bond Anticipation Note, which requires showing the debt on the balance of governmental funds.

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, 2008, 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 ten-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, 2008

3. CASH AND CASH EQUIVALENTS

As of June 30, 2008, the School had a cash and cash equivalent balance of \$961,908 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. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 is as follows:

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June, 30, 2008</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 1,585,906	\$ -	\$ 1,585,906
Construction in progress	-	975,480	-	975,480
Capital assets being depreciated:				
Furniture and equipment	568,120	-	-	568,120
Total	568,120	2,561,386	-	3,129,506
Less accumulated depreciation:				
Furniture and equipment	(305,005)	(93,400)	-	(398,405)
Total capital assets, net	<u>\$ 263,115</u>	<u>\$ 2,467,986</u>	<u>\$ -</u>	<u>\$ 2,731,101</u>

Depreciation expense was \$93,400 for the year ended June 30, 2008, 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, 2008

5. COMMITMENTS AND CONTINGENCIES

Lease

The School leases its facilities from a third party under a lease beginning September 1, 2006, for a three-year term with an option to renew for an additional five-year term. If the renewal option is exercised, rent will increase by the lesser of actual increases in pass through charges or five percent of prior year lease.

For the year ended June 30, 2008, rent expense was approximately \$550,000. As of June 30, 2008, the approximate minimum future rental payments under this lease are \$550,000 for the year ending June 30, 2009.

Compensated Absences

As of July 1, 2007, the School had a liability of \$151,126 for compensated absences. During the year ended June 30, 2008, the School hired additional personnel and had a liability as of June 30, 2008 of \$246,319 and incurred additional expense of \$95,193 with no payments made. The School considers all compensated absences to be long term in nature.

Grants

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.

Litigation

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

6. DEBT

The School entered into a construction debt agreement to fund the acquisition of land and building of three new school buildings of approximately \$12 million for a term of one year due in May 2009. The School expects to refinance the debt through the issuance of bonds. During the year ended June 30, 2008, no debt principal payments were due under this note. The school paid off the equipment debt of \$158,131 during the year ended June 30, 2008.

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Financial Statements

June 30, 2008

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. The School will pay \$275,000 plus four percent interest over ten years. No payments or activity occurred in fiscal year 2008. Annual debt service requirements to maturity is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amount</u>
2009	\$ 55,000	\$ 20,900	\$ 75,900
2010	27,500	8,800	36,300
2011	27,500	7,700	35,200
2012	27,500	6,600	34,100
2013	27,500	5,500	33,000
2014 and thereafter	110,000	11,000	121,000
Total	<u>\$ 275,000</u>	<u>\$ 60,500</u>	<u>\$ 335,500</u>

8. PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. For the year ended June 30, 2008, the State contributed 15.02% (\$351,373) 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. 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 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, 2008

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.



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

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

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

We have audited the financial statements of Providence Creek Academy Charter School, Inc. (the School) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the School's management, School Board Members, Department of Education, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, and the Department of Finance and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "SB's Company, LLC". The signature is written in a cursive, slightly slanted style.

Hunt Valley, Maryland
September 12, 2008

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, 2008

	Original and Final Budgeted Amounts	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenue			
State Support	\$ 4,431,195	\$ 4,389,218	\$ (41,977)
Federal Support	-	241,400	241,400
Charges to School Districts	718,138	723,668	5,530
School Lunch Services	-	229,026	229,026
Total revenue	<u>5,149,333</u>	<u>5,583,312</u>	<u>433,979</u>
Expenditures			
Current:			
Salaries	3,125,718	3,524,028	(398,310)
Textbooks	25,000	62,464	(37,464)
Contracted Services	100,000	114,082	(14,082)
Professional Development	9,400	16,527	(7,127)
Insurance	22,711	55,251	(32,540)
Rent	553,000	549,996	3,004
Miscellaneous	45,186	81,647	(36,461)
Utilities	125,000	80,580	44,420
Computers	10,000	25,766	(15,766)
Repairs and Maintenance	45,000	53,487	(8,487)
Promotional	13,000	14,606	(1,606)
Supplies and Materials	92,000	99,006	(7,006)
Transportation – Buses	492,000	-	492,000
Legal Fees	65,500	3,769	61,731
Custodial Costs	111,000	106,601	4,399
Debt service – interest	60,000	6,452	53,548
Debt service – principal	-	158,131	(158,131)
Capital outlay/transfers	152,987	826,371	(673,384)
Total expenditures	<u>5,047,502</u>	<u>5,778,764</u>	<u>(731,262)</u>
Net change in fund balance	<u>\$ 101,831</u>	<u>\$ (195,452)</u>	<u>\$ (297,283)</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

Notes to the Schedule of Findings Revenue, Expenditures, and Change in Fund Balance – Budget and Actual – General Fund

For the Year Ended June 30, 2008

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 13.

That statement is prepared on the modified accrual basis of accounting. Revenues 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. 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	\$ (195,452)
Net increase in salary accrual	(77,531)
Net decrease in receivables	(20,704)
Net decrease in accounts payable	<u>21,609</u>
Net change in fund balance, GAAP basis	<u>\$ (272,078)</u>

PROVIDENCE CREEK ACADEMY CHARTER SCHOOL, INC.

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Providence Creek Academy Charter School, Inc.
2. No significant deficiencies reportable conditions were identified during the audit of the basic financial statements of Providence Creek Academy Charter School, Inc.
3. No instances of noncompliance material to the financial statements of Providence Creek Academy Charter School, Inc. were disclosed during the audit.

FINDINGS – COMPLIANCE REPORTING

None

FINDINGS – FINANCIAL REPORTING

None