

**PRAIRIE CROSSING CHARTER SCHOOL  
AND ITS SUBSIDIARY  
Grayslake, Illinois**

**CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2009 and 2008**

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## Independent Auditor's Report

Board of Directors  
Prairie Crossing Charter School and its subsidiary  
Grayslake, Illinois

We have audited the accompanying consolidated statements of financial position of Prairie Crossing Charter School (PCCS) and its subsidiary as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of PCCS's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prairie Crossing Charter School and its subsidiary as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*Clifton Gunderson LLP*

Racine, Wisconsin  
September 14, 2009



## LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 19,854	\$ 30,742
Accrued expenses and other liabilities	172,135	125,097
Note payable	-	150,000
Current maturities of note payable to bank	22,881	-
Current maturities of bond payable	155,000	-
Current maturities of mortgage payable	-	154,192
Current maturities of capital lease obligations	4,139	3,823
Deferred revenue	<u>26,572</u>	<u>31,960</u>
Total current liabilities	<u>400,581</u>	<u>495,814</u>
 <b>LONG-TERM LIABILITIES</b>		
Interest rate swap	356,560	-
Note payable to bank, less current maturities above	196,153	-
Bond payable, less current maturities above	9,285,000	-
Mortgage payable, less current maturities above	-	9,024,760
Capital lease obligations, less current maturities above	<u>5,656</u>	<u>9,795</u>
Total long-term liabilities	<u>9,843,369</u>	<u>9,034,555</u>
Total liabilities	<u>10,243,950</u>	<u>9,530,369</u>
 <b>NET ASSETS</b>		
Unrestricted	1,246,163	1,722,611
Temporarily restricted	<u>1,525</u>	<u>-</u>
Total net assets	<u>1,247,688</u>	<u>1,722,611</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 11,491,638</u>	 <u>\$ 11,252,980</u>

The accompanying notes are an integral part of the consolidated financial statements.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Revenues, gains, and other support:		
General state aid	\$ 3,071,036	\$ 2,927,877
Contributions	65,051	258,421
Fundraising	95,903	106,850
Grants:		
State grants	66,927	65,060
Federal special education	56,882	60,987
Various	37,730	11,515
Gifts-in-kind	300	-
School and program fees	323,655	289,734
Rent income	28,966	22,331
Interest income	6,416	19,364
Other income	4,960	7,772
	<u>3,757,826</u>	<u>3,769,911</u>
 Total revenues, gains, and other support	 3,757,826	 3,769,911
 Net assets released from restrictions	 <u>-</u>	 <u>38,210</u>
 Total unrestricted revenues, gains, and other support	 <u>3,757,826</u>	 <u>3,808,121</u>
 Expenses:		
Program services	3,206,655	3,141,001
Fundraising	68,490	93,334
Management and general	602,569	571,775
	<u>3,877,714</u>	<u>3,806,110</u>
 Total expenses	 3,877,714	 3,806,110
 Unrealized loss on interest rate swap	 <u>356,560</u>	 <u>-</u>
 Increase (decrease) in unrestricted net assets	 <u>(476,448)</u>	 <u>2,011</u>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
Grants and contributions	1,525	2,585
Net assets released from restrictions	<u>-</u>	<u>(38,210)</u>
 Increase (decrease) in temporarily restricted net assets	 <u>1,525</u>	 <u>(35,625)</u>
 <b>CHANGE IN NET ASSETS</b>	 <b>(474,923)</b>	 <b>(33,614)</b>
 <b>NET ASSETS, BEGINNING OF YEAR</b>	 <b><u>1,722,611</u></b>	 <b><u>1,756,225</u></b>
 <b>NET ASSETS, END OF YEAR</b>	 <b><u>\$ 1,247,688</u></b>	 <b><u>\$ 1,722,611</u></b>

The accompanying notes are an integral part of the consolidated financial statements.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (474,923)	\$ (33,614)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	336,718	372,649
Unrealized loss on interest rate swap	356,560	-
Effects of changes in operating assets and liabilities:		
Grants receivable	947	(9,858)
Other receivable	(9,457)	5,559
Prepaid assets	(1,785)	(1,233)
Accounts payable	(10,888)	(52,480)
Accrued expenses and other liabilities	104,306	9,029
Deferred revenue	(5,388)	31,385
	<u>296,090</u>	<u>321,437</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(53,109)	(50,058)
Cash restricted to investment in property	<u>203</u>	<u>19,822</u>
	<u>(52,906)</u>	<u>(30,236)</u>
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on capital lease obligations	(3,823)	(3,532)
Principal payments on mortgage note	(21,970)	(132,556)
Proceeds from note payable	235,000	-
Payments on note payable	(15,966)	(50,000)
Payments on line-of-credit	-	(70,000)
Payment of bond issuance costs	(441,743)	-
Deposit required by finance agreement	(306,696)	-
Deposit released by expiring finance agreement	500,000	-
Purchase of short-term investments	(129,167)	-
	<u>(184,365)</u>	<u>(256,088)</u>
Net cash used in financing activities		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	58,819	35,113
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>127,581</u>	<u>92,468</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 186,400</u>	<u>\$ 127,581</u>
<b>SUPPLEMENTAL DATA</b>		
Interest paid	<u>\$ 563,569</u>	<u>\$ 661,616</u>

The accompanying notes are an integral part of the consolidated financial statements.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Prairie Crossing Charter School (PCCS) was formed in July 1999 in the state of Illinois and focuses on the environment, conservation, and good citizenship and currently offers kindergarten through grade 8. For the 2008-2009 and 2007-2008 school years, the maximum enrollment was 361 students, of which three students were out of district. PCCS is supported primarily by General State Aid from the State of Illinois, which reimburses PCCS a certain dollar amount per student per school year, and various grants from state, federal, and other agencies.

PCCS is subject to a "Charter Agreement" with the Illinois State Board of Education (ISBE). The agreement is for a term of five years and ended with the 2008-2009 school year. The agreement was renewed for an additional five years, ending with the 2013-2014 school year.

PCCS Holdings, LLC (Holdings) is an Illinois limited liability company, with PCCS as a single member. Holdings was formed in June 2004 to own and develop PCCS property and lease it to PCCS. Construction for the first building was completed in December 2004, and construction for the second building was completed in August 2006.

Significant accounting policies followed by PCCS are presented below.

**Consolidation**

The accompanying consolidated financial statements include the accounts of Prairie Crossing Charter School and its wholly-owned subsidiary, PCCS Holdings, LLC. All significant intercompany items and transactions have been eliminated.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents**

PCCS considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. PCCS maintains its cash balances at regional banks.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Receivables**

Receivables are uncollateralized obligations which generally require payment within thirty days from the invoice date. Receivables are stated at the invoice amount.

Account balances with invoices over ninety days old are considered delinquent. Payments of receivables are applied to the specific invoices identified on the remittance advice or, if unspecified, to the earliest unpaid invoices.

The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific accounts and the aging of the receivables. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

**Investments**

Investments are carried at fair value. The investments are held in a custodial account. Fair values on all investments are determined at June 30.

**Property and Equipment**

Property and equipment is stated at cost or, if donated, at the approximate fair market value as of the date of donation. Expenditures for maintenance and repairs are charged to expense as incurred. Additions and replacements in excess of \$1,500, including interest and issuance costs during the construction period, are capitalized. Depreciation is recorded on the straight-line method over the estimated useful lives of the various assets, which range from three to thirty-nine years.

**Impairment of Long-Lived Assets**

PCCS reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

**Bond Issuance Costs**

Costs incurred as a result of issuing tax-exempt bonds are amortized on a straight-line basis over the term of the related debt.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounting Policy for Derivative Financial Instruments**

PCCS recognizes all of its derivative instruments as either assets or liabilities at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, PCCS designates the hedging instrument as a fair value hedge.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the current earnings during the period of the change in fair values. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

**Net Assets**

Net assets are classified into one of three classes of net assets based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

**Unrestricted**

**Undesignated**

Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted. Gains or losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

**Board designated**

It is the policy of the Board of Directors of PCCS to review its plans for future operations and periodically appropriate sums for those plans.

**Temporarily Restricted**

Temporarily restricted net assets includes contributed net assets for which donor imposed time and/or purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

**Permanently Restricted**

Permanently restricted net assets includes contributed net assets which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

PCCS reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

PCCS reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, PCCS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Income Taxes**

No provision or benefit for income taxes has been included in these financial statements since PCCS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Change in Accounting Principles**

Effective July 1, 2008, the School adopted FASB Statement No. 157, "Fair Value Measurements" (FAS 157), which provides a comprehensive framework for measuring fair value and expands disclosures which are required about fair value measurements. Specifically, FAS 157 sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. The adoption of FAS 157 did not have a material impact on the School's consolidated financial statements.

**NOTE 2 - CONCENTRATION OF CREDIT RISK**

PCCS and Holdings maintain their cash balances in three financial institutions. As of June 30, 2008, cash balances were insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per institution. As of June 30, 2009, balances in the School's non-interest-bearing transaction deposit accounts are fully insured by the FDIC, and balances in other deposit accounts are insured by the FDIC up to \$250,000 per depositor per bank. As of June 30, 2009 and 2008, the School had funds on deposit at one institution that exceeded the insured amounts. Management believes they are not exposed to any significant credit risk on cash and deposits.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 3 - PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 976,852	\$ 949,089
Land improvements	157,961	157,961
Building improvements	9,939,182	9,935,915
Furniture and fixtures	190,323	190,323
Equipment	404,913	404,913
Software	<u>48,882</u>	<u>26,802</u>
Total property and equipment	11,718,113	11,665,003
Less accumulated depreciation	<u>(1,445,854)</u>	<u>(1,086,573)</u>
Property and equipment	<u>\$10,272,259</u>	<u>\$10,578,430</u>

**NOTE 4 - BOND ISSUANCE COSTS**

Aggregate amortization expense for bond issuance costs for the year ended June 30, 2009 was \$14,000.

Future estimated amortization expense for bond issuance costs is as follows:

2010	\$ 17,716
2011	17,716
2012	17,716
2013	17,716
2014	17,716
Thereafter	<u>428,913</u>
<b>Total</b>	<u>\$ 517,493</u>

**NOTE 5 - CAPITAL LEASE OBLIGATIONS**

In July 2006, PCCS entered into a lease for office equipment with a cost of \$19,622 under a capital lease expiring in July 2011. The liability under the capital lease is recorded at the present value of the minimum lease payments. The interest rate on the capital lease obligation is approximately 8 percent and is imputed based on the lessor's implicit rate of return. Amortization expense on equipment acquired under capital leases was \$3,924 for the years ended June 30, 2009 and 2008. Accumulated amortization on leased equipment was \$11,773 and \$7,849 at June 30, 2009 and 2008, respectively.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 5 - CAPITAL LEASE OBLIGATIONS (CONTINUED)**

Future minimum lease payments under the capital lease are due as follows:

2010	\$ 4,800
2011	4,800
2012	<u>1,200</u>
	10,800
Amount representing interest	<u>(1,005)</u>
Present value of future minimum capital lease payments	9,795
Current portion	<u>(4,139)</u>
<b>Long-term portion</b>	<b><u>\$ 5,656</u></b>

**NOTE 6 - LEASE COMMITMENTS**

Effective June 16, 2004, PCCS entered into a lease with Holdings for the current school buildings and those currently under construction. The lease expires December 31, 2028 and is paid directly to Lake Forest Bank in monthly installments equal to the regularly scheduled principal and interest payments required by Holdings note payable on the property. The lease expense under this agreement is eliminated upon consolidation. See note 8 for further discussion of the bond on the property.

**NOTE 7 - LINE-OF-CREDIT**

PCCS has a \$300,000 line-of-credit with a bank which bears interest at the bank's prime rate, but not less than 4.00% (4.00% at June 30, 2009). The line is due September 30, 2009. There were no amounts outstanding at June 30, 2009 and 2008. The line-of-credit is collateralized by a general business security agreement and includes several financial covenants.

**NOTE 8 - MORTGAGE/BOND PAYABLE**

In September 2008, the previous mortgage payable was refinanced through the issuance of \$9,440,000 tax-exempt adjustable Rate Demand Refunding Revenue Bonds through the Illinois Finance Authority and a \$235,000 note payable to a bank. Both agreements are collateralized by substantially all of PCCS's assets and includes several financial covenants.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 8 - MORTGAGE/BOND PAYABLE (CONTINUED)**

The bonds are to be repaid over 30 years, with the first sinking fund payment of \$155,000 made September 1, 2009. As of June 30, 2009, PCCS has accumulated \$129,167 in the bond sinking fund, which has been reported as a short-term investment in the consolidated statements of financial position. A certificate of deposit in the amount of \$306,696 is presented as deposit required by the finance agreement in the consolidated statements of financial position. The interest rate on the bonds is established by a remarketing agent and changes weekly. The initial rate was set at 4.75% on September 17, 2008. PCCS entered into an interest rate swap agreement with Lake Forest Bank and Trust dated September 29, 2008 and effective on October 1, 2008 for a fixed rate of 3.06% for three years. The first payment was made on the swap November 3, 2008. The swap agreement matures on September 15, 2011. PCCS is responsible for a letter-of-credit, providing for timely payment of principal and interest on the bonds through an agreement with Lake Forest Bank and Trust.

The note payable to bank is a \$235,000 term note, including interest at 7.25%, that requires monthly payments of principal and interest of \$3,167, with a final payment due upon maturity at September 18, 2011.

Future principal payments are as follows:

2010	\$ 177,881
2011	184,596
2012	341,557
2013	175,000
2014	185,000
Later years	<u>8,595,000</u>
<b>Total</b>	<b><u>\$ 9,659,034</u></b>

**NOTE 9 - NOTE PAYABLE**

PCCS entered into an unsecured note payable agreement with a non-related party for \$200,000, of which \$150,000 was outstanding at June 30, 2008. Interest payments were due semi-annually, in December and June at an annual rate of 2.5 percent, and the principal balance was paid off on September 18, 2008.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 10 - RETIREMENT PLANS**

**Teachers' Retirement System of the State of Illinois (TRS)**

PCCS participates in TRS, which is a cost-sharing, multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago. The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the governor's approval. The State of Illinois maintains primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration.

TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. Active TRS members are required to contribute 9.4 percent of their creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer. In addition, virtually all members pay a 0.8 percent contribution to the Teachers' Health Insurance Security Fund, a separate fund in the State Treasury that is not a part of this retirement plan.

The State of Illinois makes contributions directly to TRS on behalf of PCCS's TRS-covered employees.

**On-Behalf Contributions**

For the years ended June 30, 2009 and 2008, PCCS contributions were based on 9.4 percent of creditable earnings and PCCS recognized expenditures of \$94,392 and \$86,732 for pension contributions paid directly to TRS, respectively.

PCCS makes four other types of employer contributions directly to TRS:

**2.2 Formula Contributions**

For the years ended June 30, 2009 and 2008, TRS-covered employers were required to contribute 0.58 percent of creditable earnings as the employer share of the 2.2 formula change, respectively. The contribution for the years ended June 30, 2009 and 2008 was \$5,522 and \$5,352, respectively.

**Federal and Trust Fund Contributions**

When TRS members are paid from federal and trust funds administered by PCCS, there is a statutory requirement of PCCS to pay an additional contribution that is currently 17.08 percent and 13.11 percent of salaries paid from those funds for the years ended June 30, 2009 and 2008, respectively. For the years ended June 30, 2009 and 2008, PCCS paid \$1,936 and \$980 from the federal and trust funds, respectively.

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2009 and 2008**

**NOTE 10 - RETIREMENT PLANS (CONTINUED)**

**Teachers' Retirement System of the State of Illinois (TRS)** (continued)

**Early Retirement Incentive**

PCCS is required to make employer contributions to TRS for members who retired under the 1993-1995 Early Retirement Incentive. For each year of service purchased, members received an equal number of years of age. Employers contributed 20 percent of the highest salary used in the calculation of final average salary for each year purchased; member contributions were also required. Employer contributions could be made in a lump sum, over five years in quarterly installments, or under a different schedule approved by the TRS Board of Trustees. For the years ended June 30, 2009 and 2008, PCCS paid no employer contributions under the Early Retirement Incentive.

**Early Retirement Option**

PCCS is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option. The payments vary depending on the age and salary of the member. No member or employer contributions are required if the member has 34 years of service. The maximum employer payment of 100 percent of the member's highest salary used in the calculation of final average salary is required if the member is 55 years old. For the years ended June 30, 2009 and 2008, PCCS paid no employer contributions under the Early Retirement Option.

TRS financial information, an explanation of TRS's benefits, and descriptions of member, employer and state funding requirements can be found in the TRS Comprehensive Annual Financial Report. The report may be obtained by writing to the Teachers' Retirement System of the State of Illinois, P.O. Box 19253, 2815 West Washington Street, Springfield, IL 62794-9253.

**403(b) and 403(b)(7) Plans**

PCCS has two tax-deferred annuity plans pursuant to Section 403(b) and 403(b)(7) covering all employees. The plans are funded solely by employee contributions.

**NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

In determining fair value, the School uses various valuation approaches within the FAS 157 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

FAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. FAS 157 defines levels within the hierarchy based on the reliability of inputs as follows:

- Level 1—Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
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**NOTE 11 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

- Level 2—Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

As of June 30, 2009, the only asset or liability that is measured at fair value on a recurring basis in periods subsequent to initial recognition is an interest rate swap agreement. The fair value of the interest rate swap agreement is estimated by a third party using a model that builds a yield curve from market data for actively traded securities at various times and maturities and takes into account current interest rates and the current credit worthiness of the respective counterparties. The interest rate swap is classified within Level 2 of the valuation hierarchy. The fair value of the interest rate swap agreement as of June 30, 2009 is \$356,560 and is reported as a noncurrent liability in the accompanying balance sheet.

**NOTE 12 - NONCASH INVESTING AND FINANCING TRANSACTIONS**

During the year, \$9,440,000 of bond proceeds were used to refinance \$9,214,250 of then outstanding mortgage debt and related accrued interest, \$75,750 of bond closing costs, and \$150,000 of then outstanding unrelated term debt.

**NOTE 13 - RECLASSIFICATIONS**

Certain amounts in the June 30, 2008 financial statements have been reclassified to conform to the current year presentation.

**NOTE 14 - SUBSEQUENT EVENTS**

Management evaluated subsequent events through September 14, 2009, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2009, but prior to September 14, 2009 that provided additional evidence about conditions that existed at June 30, 2009, have been recognized in the financial statements for the year ended June 30, 2009. Events or transactions that provided evidence about conditions that did not exist at June 30, 2009 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2009.

This information is an integral part of the accompanying consolidated financial statements.

**SUPPLEMENTAL INFORMATION**

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
**June 30, 2009**  
**With Summarized Information as of June 30, 2008**

**ASSETS**

	<b>2009</b>			<b>2008</b>	
	<b>PCCS</b>	<b>HOLDINGS</b>	<b>Eliminations</b>	<b>Total</b>	<b>Total</b>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 186,400	\$ -	\$ -	\$ 186,400	\$ 127,581
Cash restricted to investment in property	-	6,475	-	6,475	6,678
Deposit required by finance agreement	-	-	-	-	500,000
Bond sinking fund	-	129,167	-	129,167	-
Grants receivable	26,759	-	-	26,759	27,706
Other receivable	10,000	-	-	10,000	543
Due from PCCS	-	144,265	(144,265)	-	-
Charter renewal fees	33,371	-	-	33,371	10,809
Prepaid assets	3,018	-	-	3,018	1,233
Investment in PCCS Holdings, LLC	1,163,607	-	(1,163,607)	-	-
Total current assets	1,423,155	279,907	(1,307,872)	395,190	674,550
<b>DEPOSIT REQUIRED BY FINANCE AGREEMENT</b>	-	306,696	-	306,696	-
<b>PROPERTY AND EQUIPMENT, NET</b>	197,154	10,075,105	-	10,272,259	10,578,430
<b>BOND ISSUANCE COSTS</b>	-	517,493	-	517,493	-
<b>TOTAL ASSETS</b>	<u>\$ 1,620,309</u>	<u>\$ 11,179,201</u>	<u>\$ (1,307,872)</u>	<u>\$ 11,491,638</u>	<u>\$ 11,252,980</u>

**LIABILITIES AND NET ASSETS**

	2009			2008	
	PCCS	HOLDINGS	Eliminations	Total	Total
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 19,854	\$ -	\$ -	\$ 19,854	\$ 30,742
Accrued expenses and other liabilities	172,135	-	-	172,135	125,097
Note payable	-	-	-	-	150,000
Current maturities of note payable to bank	-	22,881	-	22,881	-
Current maturities of bond payable	-	155,000	-	155,000	-
Current maturities of mortgage payable	-	-	-	-	154,192
Current maturities of capital lease obligations	4,139	-	-	4,139	3,823
Due to Holdings	144,265	-	(144,265)	-	-
Deferred revenue	26,572	-	-	26,572	31,960
<b>Total current liabilities</b>	<b>366,965</b>	<b>177,881</b>	<b>(144,265)</b>	<b>400,581</b>	<b>495,814</b>
<b>LONG-TERM LIABILITIES</b>					
Interest rate swap	-	356,560	-	356,560	-
Note payable to bank, less current maturities above	-	196,153	-	196,153	-
Bond payable, less current maturities above	-	9,285,000	-	9,285,000	-
Mortgage payable, less current maturities above	-	-	-	-	9,024,760
Capital lease obligations, less current maturities above	5,656	-	-	5,656	9,795
<b>Total long-term liabilities</b>	<b>5,656</b>	<b>9,837,713</b>	<b>-</b>	<b>9,843,369</b>	<b>9,034,555</b>
<b>Total liabilities</b>	<b>372,621</b>	<b>10,015,594</b>	<b>(144,265)</b>	<b>10,243,950</b>	<b>9,530,369</b>
<b>NET ASSETS</b>					
Unrestricted	1,246,163	-	-	1,246,163	1,722,611
Temporarily restricted	1,525	-	-	1,525	-
Members' equity	-	1,163,607	(1,163,607)	-	-
<b>Total net assets</b>	<b>1,247,688</b>	<b>1,163,607</b>	<b>(1,163,607)</b>	<b>1,247,688</b>	<b>1,722,611</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,620,309</b>	<b>\$ 11,179,201</b>	<b>\$ (1,307,872)</b>	<b>\$ 11,491,638</b>	<b>\$ 11,252,980</b>

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES**  
Year Ended June 30, 2009  
With Summarized Information for the Year Ended June 30, 2008

	2009				2008
	PCCS	HOLDINGS	Eliminations	Total	Total
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>					
Revenues, gains, and other support:					
General state aid	\$ 3,071,036	\$ -	\$ -	\$ 3,071,036	\$ 2,927,877
Contributions	65,051	-	-	65,051	258,421
Fundraising	95,903	-	-	95,903	106,850
Grants:					
State grants	66,927	-	-	66,927	65,060
Federal special education	56,882	-	-	56,882	60,987
Various	37,730	-	-	37,730	11,515
Gifts-in-kind	300	-	-	300	-
School and program fees	323,655	-	-	323,655	289,734
Rent income	28,966	712,785	(712,785)	28,966	22,331
Interest income	1,605	4,811	-	6,416	19,364
Investment income (loss)	(473,815)	-	473,815	-	-
Other income	4,960	-	-	4,960	7,772
	<u>3,279,200</u>	<u>717,596</u>	<u>(238,970)</u>	<u>3,757,826</u>	<u>3,769,911</u>
Total revenues, gains, and other support					
Net assets released from restrictions	-	-	-	-	38,210
	<u>3,279,200</u>	<u>717,596</u>	<u>(238,970)</u>	<u>3,757,826</u>	<u>3,808,121</u>
Expenses:					
Program services	3,094,675	789,126	(677,146)	3,206,655	3,141,001
Fundraising	68,490	-	-	68,490	93,334
Management and general	592,483	45,725	(35,639)	602,569	571,775
	<u>3,755,648</u>	<u>834,851</u>	<u>(712,785)</u>	<u>3,877,714</u>	<u>3,806,110</u>
Total expenses					
Unrealized loss on interest rate swap	-	356,560	-	356,560	-
	<u>(476,448)</u>	<u>(473,815)</u>	<u>473,815</u>	<u>(476,448)</u>	<u>2,011</u>
Increase (decrease) in unrestricted net assets					

	2009				2008
	PCCS	HOLDINGS	Eliminations	Total	Total
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>					
Grants and contributions	\$ 1,525	\$ -	\$ -	\$ 1,525	\$ 2,585
Net assets released from restrictions	-	-	-	-	(38,210)
Increase (decrease) in temporarily restricted net assets	1,525	-	-	1,525	(35,625)
<b>CHANGE IN NET ASSETS</b>	(474,923)	(473,815)	473,815	(474,923)	(33,614)
<b>NET ASSETS, BEGINNING OF YEAR</b>	1,722,611	1,637,422	(1,637,422)	1,722,611	1,756,225
<b>NET ASSETS, END OF YEAR</b>	\$ 1,247,688	\$ 1,163,607	\$ (1,163,607)	\$ 1,247,688	\$ 1,722,611

**PRAIRIE CROSSING CHARTER SCHOOL AND ITS SUBSIDIARY**  
**CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2009**  
**With Summarized Information for the Year Ended June 30, 2008**

	<b>2009</b>				<b>2008</b>
	<b>Program Services</b>	<b>Fund- Raising</b>	<b>Management and General</b>	<b>Total</b>	<b>Total</b>
<b>PCCS</b>					
Salaries	\$ 1,388,038	\$ 22,115	\$ 355,662	\$ 1,765,815	\$ 1,682,217
Benefits	139,158	-	13,023	152,181	113,286
Payroll taxes	48,052	-	21,624	69,676	65,431
	<u>1,575,248</u>	<u>22,115</u>	<u>390,309</u>	<u>1,987,672</u>	<u>1,860,934</u>
Accounting expense	-	-	30,171	30,171	21,305
Club expenses	67,317	-	-	67,317	57,492
Dues	-	-	4,833	4,833	731
Educational materials and supplies	45,748	-	-	45,748	46,267
Employee recruiting	-	-	2,512	2,512	2,793
Fundraising	-	46,375	-	46,375	55,325
Grants	29,009	-	-	29,009	30,284
Hot lunches and field trips	100,821	-	-	100,821	100,035
Legal expense	7,956	-	26,981	34,937	28,247
Liability insurance	27,089	-	6,772	33,861	52,702
Miscellaneous expense	-	-	15,373	15,373	(4,264)
Other professional fees	4,972	-	32,455	37,427	31,012
Office expense	11,090	-	20,197	31,287	25,188
Professional development	7,849	-	1,962	9,811	2,570
Rent expense	678,346	-	35,639	713,985	786,880
Repairs and maintenance	41,156	-	10,290	51,446	76,475
Special education professional fees	302,925	-	-	302,925	284,511
Transportation	20,543	-	-	20,543	22,718
Utilities	65,338	-	7,259	72,597	67,963
	<u>2,985,407</u>	<u>68,490</u>	<u>584,753</u>	<u>3,638,650</u>	<u>3,549,168</u>
Total expenses					
Depreciation and amortization	99,241	-	5,223	104,464	107,351
Interest expense	10,027	-	2,507	12,534	8,693
	<u>3,094,675</u>	<u>68,490</u>	<u>592,483</u>	<u>3,755,648</u>	<u>3,665,212</u>
Total PCCS					

	2009			2008	
	Program Services	Fund-Raising	Management and General	Total	Total
<b>HOLDINGS</b>					
Accounting expense	\$ -	\$ -	\$ 3,000	\$ 3,000	\$ 3,000
Legal expense	-	-	1,192	1,192	5,157
Total expenses	-	-	4,192	4,192	8,157
Depreciation and amortization	265,643	-	13,981	279,624	265,298
Interest expense	523,483	-	27,552	551,035	652,923
Total Holdings	789,126	-	45,725	834,851	926,378
Total expenses before eliminations	3,883,801	68,490	638,208	4,590,499	4,591,590
Total eliminations	(677,146)	-	(35,639)	(712,785)	(785,480)
<b>TOTAL EXPENSES</b>	<b>\$ 3,206,655</b>	<b>\$ 68,490</b>	<b>\$ 602,569</b>	<b>\$ 3,877,714</b>	<b>\$ 3,806,110</b>