



VACAVILLE CHRISTIAN SCHOOLS

FINANCIAL STATEMENTS
With Independent Auditors' Report

July 31, 2009 and 2008

VACAVILLE CHRISTIAN SCHOOLS

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5

INDEPENDENT AUDITORS' REPORT

Board of Directors
Vacaville Christian Schools
Vacaville, California

We have audited the accompanying statements of financial position of Vacaville Christian Schools as of July 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Vacaville Christian Schools as of July 31, 2009 and 2008, and the results of its activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, Vacaville Christian Schools has implemented SFAS No. 165, *Subsequent Events*. The adoption of this standards had no impact on previously reported net assets.



Brea, California
December 1, 2009

VACAVILLE CHRISTIAN SCHOOLS

Statements of Financial Position

	July 31,	
	2009	2008
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 296,908	\$ 1,365,807
Tuition receivable	313,827	178,204
Prepays and other assets	158,843	199,294
Bond issuance fees-current portion	13,198	13,198
Remaining bond proceeds	-	1,581,922
Note receivable-current portion	4,650	25,000
Total current assets	787,426	3,363,425
Restricted cash	2,000,000	3,200,000
Bond issuance fees-net of current portion and amortization	356,335	369,532
Note receivable-net of current portion	20,350	-
Land, buildings, and equipment—at cost, net	21,592,824	21,097,012
Total Assets	\$ 24,756,935	\$ 28,029,969
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 201,159	\$ 90,104
Construction costs payable	-	1,459,961
Accrued expenses	425,516	223,763
Deferred tuition and fee revenue	78,638	189,037
Total current liabilities	705,313	1,962,865
Bonds payable	16,070,000	16,070,000
Derivative, interest rate swap	509,943	263,597
	17,285,256	18,296,462
Net assets:		
Unrestricted	1,876,465	4,347,826
Board designated	72,390	1,808,630
Net investment in land, building, and equipment	5,522,824	3,567,051
	7,471,679	9,723,507
Temporarily restricted	-	10,000
	7,471,679	9,733,507
Total Liabilities and Net Assets	\$ 24,756,935	\$ 28,029,969

See notes to financial statements

VACAVILLE CHRISTIAN SCHOOLS

Statements of Activities

Year Ended July 31,

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Tuition and fees	\$ 9,465,099	\$ -	\$ 9,465,099	\$ 9,619,077	\$ -	\$ 9,619,077
Less discounts	(841,766)	-	(841,766)	(707,973)	-	(707,973)
Net revenue	8,623,333	-	8,623,333	8,911,104	-	8,911,104
Auxiliary income	1,603,042	-	1,603,042	1,563,099	-	1,563,099
Fundraisers and special events	372,081	-	372,081	565,516	-	565,516
Contributions	149,493	-	149,493	165,415	103,161	268,576
Interest income	88,843	-	88,843	503,353	-	503,353
Loss on sale of donated investments	-	-	-	(6,551)	-	(6,551)
Net assets released from restrictions:						
Satisfaction of purpose restrictions	10,000	(10,000)	-	1,768,233	(1,768,233)	-
Total Support, Revenue, and Reclassifications	<u>10,846,792</u>	<u>(10,000)</u>	<u>10,836,792</u>	<u>13,470,169</u>	<u>(1,665,072)</u>	<u>11,805,097</u>
EXPENSES:						
Salaries	6,416,315	-	6,416,315	5,933,192	-	5,933,192
Benefits	1,275,705	-	1,275,705	1,058,772	-	1,058,772
Depreciation and amortization	655,984	-	655,984	465,913	-	465,913
Interest	396,224	-	396,224	158,143	-	158,143
Repairs and maintenance	88,494	-	88,494	73,714	-	73,714
Classroom	1,061,962	-	1,061,962	1,194,617	-	1,194,617
Additional program	669,142	-	669,142	493,735	-	493,735
Administrative	2,288,448	-	2,288,448	2,380,761	-	2,380,761
Change in fair market value of interest rate swap	246,346	-	246,346	263,597	-	263,597
Total Expenses	<u>13,098,620</u>	<u>-</u>	<u>13,098,620</u>	<u>12,022,444</u>	<u>-</u>	<u>12,022,444</u>
Change in Net Assets	(2,251,828)	(10,000)	(2,261,828)	1,447,725	(1,665,072)	(217,347)
Net Assets, Beginning of Year	<u>9,723,507</u>	<u>10,000</u>	<u>9,733,507</u>	<u>8,275,782</u>	<u>1,675,072</u>	<u>9,950,854</u>
Net Assets, End of Year	<u>\$ 7,471,679</u>	<u>\$ -</u>	<u>\$ 7,471,679</u>	<u>\$ 9,723,507</u>	<u>\$ 10,000</u>	<u>\$ 9,733,507</u>

See notes to financial statements

VACAVILLE CHRISTIAN SCHOOLS

Statements of Cash Flows

	For the Year Ended July 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,261,828)	\$ (217,347)
Adjustments to reconcile change in net assets to net cash used in (provided by) operating activities:		
Depreciation	639,105	452,715
Amortization of bond issuance fees	13,197	13,198
Net realized and unrealized loss on investments	-	6,551
Increase in interest rate swap liability	246,346	263,597
Change in:		
Tuition receivable	(135,623)	(7,111)
Prepays and other assets	40,451	(95,251)
Accounts payable	111,055	(18,365)
Construction costs payable	(1,459,961)	1,459,961
Accrued expenses	201,753	108,690
Deferred tuition and fee revenue	(110,399)	(292,683)
Net Cash Used in (Provided by) Operating Activities	(2,715,904)	1,673,955
CASH FLOWS FROM INVESTING ACTIVITIES:		
Building and equipment additions	(1,134,917)	(11,903,753)
Investment proceeds	-	48,126
Net Cash Used in Investing Activities	(1,134,917)	(11,855,627)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash	1,200,000	(3,200,000)
Payments on notes payable	-	(941,681)
Proceeds from issuance of bonds payable	-	16,070,000
Bond issuance fees	-	(395,928)
Remaining bond proceeds	1,581,922	(1,581,922)
Net Cash Provided by Financing Activities	2,781,922	9,950,469
Change in Cash and Cash Equivalents	(1,068,899)	(231,203)
Cash and Cash Equivalents, Beginning of Year	1,365,807	1,597,010
Cash and Cash Equivalents, End of Year	\$ 296,908	\$ 1,365,807
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest (\$0 and \$334,784 capitalized, respectively)	\$ -	\$ 438,346
Non-cash investing and financing transactions:		
Construction costs acquired through accounts payable	\$ -	\$ 1,459,961

See notes to financial statements

VACAVILLE CHRISTIAN SCHOOLS

Notes to Financial Statements

July 31, 2009 and 2008

1. NATURE OF ORGANIZATION:

Vacaville Christian Schools (the School) was incorporated in 1975, under the laws of California as a not-for-profit corporation. The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), and is also exempt from state income taxes. Contributions by the public are deductible for income tax purposes. The School has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code.

The School operates a non-denominational Christian school and child care facility. The primary sources of revenue are tuition, auxiliary fees, and contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A summary of significant accounting policies followed is described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash on deposit, and money market accounts. These accounts may, at times, exceed federally insured limits. The School has not experienced any losses.

RESTRICTED CASH

The School is required to keep a minimum amount of cash on deposit at year-end as a requirement of the bonds issued in 2007. The funds are available for use during the year as long as the required minimums are met by year-end (see Note 5).

TUITION RECEIVABLE

Tuition receivable represents amounts due for tuition. Accounts receivable become past due after the end of the school year. Uncollectible accounts greater than two years old are fully written off as bad debt. Past due receivables accrue finance charges.

The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses. Uncollectible accounts are reported as additions to the allowance for bad debts when it is determined the amounts are uncollectible. Presently, the established allowance for doubtful accounts for the period ended July 31, 2009 and 2008, is \$47,425 and \$0, respectively.

LAND, BUILDINGS, AND EQUIPMENT

Expenditures for land, buildings, and equipment over \$1,000 are capitalized at cost. Donated items are reported at the fair market value on the date of the gift. Depreciation is computed on the straight line method over the estimated useful lives of the assets. The range of useful lives are from 3 to 40 years. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

VACAVILLE CHRISTIAN SCHOOLS

Notes to Financial Statements

July 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

BOND ISSUANCE FEES

Bond issuance costs are being amortized over the outstanding obligation period using the straight-line method and are reported net of the related accumulated amortization. Bond issuance cost amortization totaled \$13,198 for the years ending July 31, 2009 and 2008.

DEFERRED TUITION AND FEE REVENUE

Deferred tuition and fee revenue are deposits received in advance for the following school year. Revenue from these deposits is recognized in the year earned.

NET ASSETS

The financial statements report amounts by classification of net assets as follows:

Unrestricted net assets are those currently available at the discretion of the Board for use in the School's operations and those resources invested in land, buildings, and equipment. Designated net assets include \$69,862 and \$89,737, of class funds and \$2,528 and \$1,718,893, designated for capital projects for the years ending July 31, 2009 and 2008, respectively.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to legal restrictions.

Contributions are recorded as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. When donor restrictions expire, that is when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The School's policy is to record temporarily restricted contributions received and expended in the same accounting period as unrestricted contributions.

For contributions restricted by donors for the acquisition of property or other long-lived assets, the restriction is considered to be met when the capital expenditures are made.

SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when cash or unconditional pledges receivable have been received, or ownership of donated assets is transferred to the School. The School receives non-cash gifts that are recorded as support at the estimated fair market value on the date of the gift. Goods given to the School that do not have an objective basis for valuation are not recorded.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

VACAVILLE CHRISTIAN SCHOOLS

Notes to Financial Statements

July 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CONTRIBUTED SERVICES

Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*, requires recording the value of donated services that create or enhance non-financial assets or require specialized skills. Many volunteers have contributed significant amounts of their time to activities of the School; however, since the above requirements were not met, the value of the contributed services is not recorded in the financial statements.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs, including payroll and related benefits, interest, utilities, and depreciation, have been allocated among the program services and supporting activities.

ALLOCATION OF JOINT COSTS

The School has implemented Statement of Position 98-2, *Accounting for Costs of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fundraising*. The School's policy is to allocate all costs of activities that have a fundraising component as 100% fundraising. There were no joint costs for the years ended July 31, 2009 and 2008.

ADVERTISING

Advertising is used to promote the programs offered by the School and to encourage enrollment. For the year ended July 31, 2009 and 2008, advertising expense is \$76,613 and \$94,999, respectively. Advertising costs are expensed as incurred.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. NOTE RECEIVABLE:

On February 15, 2008, a \$25,000 loan was granted to an executive employee in exchange for a promise to pay the principal, as well as the stated interest of 7.25%. The loan is to remain interest only for 24 months, until February 15, 2010 with monthly payments of \$151. At that time, payments will increase to \$775 per month until the note is satisfied. Any outstanding balance is due in full on January 31, 2013.

VACAVILLE CHRISTIAN SCHOOLS

Notes to Financial Statements

July 31, 2009 and 2008

4. LAND, BUILDINGS, AND EQUIPMENT:

Land, buildings, and equipment consist of:

	July 31,	
	2009	2008
Land	\$ 4,226,960	\$ 4,226,960
Buildings and improvements	19,521,851	6,908,901
Furniture and equipment	1,854,663	1,846,996
Vehicles	92,696	92,696
	25,696,170	13,075,553
Less accumulated depreciation	(4,103,346)	(3,464,241)
Construction in process	-	11,485,700
Land, buildings, and equipment—net of depreciation	21,592,824	21,097,012
Less construction costs payable	-	(1,459,961)
Less debt related to land, buildings, and equipment	(16,070,000)	(16,070,000)
Net investment in land, buildings, and equipment	\$ 5,522,824	\$ 3,567,051

5. BONDS PAYABLE:

On August 15, 2007, the California Municipal Finance Authority (the Authority) issued \$16,070,000 in Adjustable Rate Demand Revenue Bonds (CMFA Bonds) to fund a letter of credit. The School used the proceeds for the acquisition, construction, and equipping of certain capital improvements, and refinance of certain prior indebtedness. The CMFA Bonds are payable interest-only from September 1, 2007 through August 1, 2010, at which time interest and principal are paid monthly through August 1, 2037.

Letter of Credit

The letter of credit agreement is with a bank and has a maximum amount of \$16,070,000. The letter of credit is issued to Allied Irish Banks as a trustee for the benefit of the holder of the Series 2007 bonds and is subject to a yearly fee of 1.1% of the stated amount available. The letter of credit is unsecured and expires August 2012.

Annual maturities are:

Year Ending July 31,	
2010	\$ -
2011	285,000
2012	300,000
2013	310,000
2014	330,000
Thereafter	14,845,000
	\$ 16,070,000

VACAVILLE CHRISTIAN SCHOOLS

Notes to Financial Statements

July 31, 2009 and 2008

5. BONDS PAYABLE, continued:

Debt Covenants:

As of July 31, 2009, the School is in breach of two of their loan covenants in connection with the bonds issued by the Authority. The first covenant requires the School to maintain a debt service coverage ratio equal to at least 1.25 to 1. At July 31, 2009, the ratio was zero. The second covenant requires the School to maintain unrestricted cash and investments in amounts equal to or in excess of the amount set forth in the minimum balance schedule presented in the loan documents. For the fiscal year 2009, the required minimum balance is \$3,400,000. At July 31, 2009, the balance reserved for this purpose is \$2,000,000.

On November 9, 2009, Allied Irish Bank issued a waiver for the breached covenants subject to the conditions noted below.

1. Debt Service Coverage Ratio: Minimum 1.00x for the Borrower's 2010 fiscal year; 1.10x for the Borrower's 2011 fiscal year; and 1.25x for the Borrower's 2012 fiscal year.
2. Unrestricted and Temporarily Restricted Cash and Investments: Minimum \$2,200,000 for the Borrower's 2010 fiscal year; \$2,300,000 for the Borrower's 2011 fiscal year; and \$2,400,000 for the Borrower's 2012 fiscal year.
3. The Borrower's obligations under the Agreement shall be further collateralized by a first lien Deed of Trust over the Borrower's campus located at 1117 Davis Street, Vacaville, CA (the Property), which the Borrower will work with the Bank to complete by November 30, 2009.
4. The Bank will receive an Appraisal and Phase 1 environmental report with respect to the Property, in form and substance satisfactory to the Bank, at the sole cost and expense of the Borrower.
5. The pricing on the Letter of Credit will be increased to 1.50% per annum as of December 1, 2009. The Borrower shall deliver the 2009 fiscal year end audited financial statement to the Bank no later than November 30, 2009.
6. The Borrower shall provide monthly updates on its fundraising progress to the Bank. The fundraising summary shall be given to the Bank no later than the last business day of every month.

VACAVILLE CHRISTIAN SCHOOLS

Notes to Financial Statements

July 31, 2009 and 2008

6. DERIVATIVE CONTRACTS:

The School has a derivative agreement known as an interest rate swap. In substance, this agreement exchanges the variable rate terms contained in the bond agreement for a fixed rate of interest quoted by the bank at its discretion.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133, as amended, requires derivative contracts be recorded on the statement of financial position as an asset or a liability measured at its fair value. The change in the derivative's fair value is recognized currently in the statement of activities as an expense. This guidance became effective for fiscal years beginning after June 15, 2000.

The School entered into a five-year interest rate swap agreement dated August 16, 2007, with the intent of reducing the impact of changes in interest rates on its variable rate bonds. The notional amount was set at \$8,035,000 and will decline based on the amortization of principal payments. As a result of the interest rate swap, the bank pays a floating rate not greater than the rate payable under this agreement which is currently equal to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index on the notional amount and the School pays a fixed rate quoted by the bank in its sole and absolute discretion on the notional amount.

Contractual interest rate terms for the School's derivative contract for notional amount of \$8,035,000 at July 31, 2009 were:

- Fixed Rate - 3.725%
- Variable Rate - fluctuating SIFMA Municipal Swap Index
- Remaining term of contract - 3 years

The liability resulting from the estimated difference between the fixed rate and the variable rate is shown as derivative interest rate swap on the statements of financial position. This amount is recomputed each year using the interest rate existing at year end and the change is included in the statement of activities as an expense.

VACAVILLE CHRISTIAN SCHOOLS

Notes to Financial Statements

July 31, 2009 and 2008

7. LEASES:

The School leases office equipment and vehicles with total monthly payments of \$4,392 maturing various dates from February 2011 through November 2013.

The future minimum payments are:

<u>Year Ending July 31,</u>		
2010	\$	53,173
2011		51,649
2012		42,382
2013		41,070
2014		12,118
		12,118
	\$	200,392

Lease expense for the years ended July 31, 2009 and 2008, was \$48,039 and \$65,600, respectively.

8. PENSION PLAN:

The School offers all employees the opportunity to participate in a 403(b) retirement plan. The School contributes one percent of each participating employee's salary to the retirement account regardless of whether they choose to contribute funds. For full-time employees, the School also contributes an additional matching portion of the amount contributed by the employee up to a maximum of two percent of the employee's annual salary. Pension expense for the years ended July 31, 2009 and 2008, was approximately \$104,000 and \$87,000, respectively.

9. FUNCTIONAL EXPENSE ALLOCATION:

The following is an allocation of the School's expenses by function:

	July 31,	
	2009	2008
Program services	\$ 9,931,918	\$ 8,532,051
Supporting activities:		
General and administrative	2,866,564	2,800,502
Fundraising	300,138	689,891
	\$ 13,098,620	\$ 12,022,444

10. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.