

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2016



Certified Public Accountants and Business Consultants

INTRODUCTORY SECTION

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

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**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

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FINANCIAL SECTION

Independent Auditors' Report

To the Board of Directors
Prestige Academy Charter School
Wilmington, Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Prestige Academy Charter School (a component unit of the State of Delaware) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Prestige Academy Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Prestige Academy Charter School as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

To the Board of Directors
Prestige Academy Charter School
Wilmington, Delaware

Emphasis of Matter

As more fully disclosed in Note J to the financial statements, the School has also been experiencing operating deficits and declining enrollment. The School also has loan debt that is set to mature in May 2017, with the full remaining principal balance due at that time. As of the date of the financial statements, the School has not obtained a commitment to refinance the debt. As such, there is substantial doubt as to the School's ability to continue as a going concern.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 10, budgetary comparison information on pages 31 and 32, schedules of the school's proportionate share of net pension liability on page 33 and schedules of school contributions on page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Prestige Academy Charter School's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016, on our consideration of the Prestige Academy Charter's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Prestige Academy Charter's internal control over financial reporting and compliance.

Maille LLP

West Chester, Pennsylvania
October 6, 2016

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

We offer readers of Prestige Academy Charter School (the "School") statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

- The liabilities of the School exceeded its assets at the close of the most recent fiscal year by \$902,086; this is a decrease of \$410,133 over the prior fiscal year.
- Program revenues accounted for \$502,996 or 15% of total revenue of which the primary source is private foundations. General revenues accounted for \$2,919,076 or 85% of funding received.
- As of the close of the current fiscal year, the School's Governmental Fund reported an ending fund deficit of \$20,354, a decrease of \$346,189 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements. The notes to the financial statements are an integral part of the financial statements and should be read in conjunction with the financial statements.

REPORTING PRESTIGE ACADEMY CHARTER SCHOOL AS A WHOLE

Prestige Academy Charter School was legally formed and obtained its 501(c)(3) status in 2007. The fiscal years ended June 30, 2007 and 2008, served as strategic planning and implementation years. In July 2008, the School obtained its initial charter and became a component unit of the State of Delaware. The fiscal year ended June 30, 2016, was the eighth year that the School enrolled students (224 students in total) serving 5th through 8th grade. Student enrollment decreased in fiscal year 2016. As a result, the revenue and expenses of the School decreased significantly during the current fiscal year in comparison to the fiscal year ended June 30, 2015. The School obtained an approved charter modification to reduce its enrollment to 240 students and to change its grade configuration to serve 6th, 7th and 8th grade. Sixth grade is the natural break between elementary and middle school and serves as an optimal beginning enrollment grade for the School that serves as a middle school.

REPORTING PRESTIGE ACADEMY CHARTER SCHOOL'S MOST SIGNIFICANT FUND

Most of the School's activities are reported in the Governmental Fund. The Governmental Fund is used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, Governmental Fund financial statements focus on the near term inflows and outflows of available resources, as well as the availability of resources remaining (balance) to be expended. The modified accrual basis of accounting is used to account for the activities within the Governmental Fund compared to the accrual method for government-wide financial statements. Expenditures that are recognized under the modified accrual basis are the amounts that would normally be liquidated with expendable available financial resources of the School. The differences between the government-wide activities (reported in the Statement of Net Position and the Statement of Activities) and the Governmental Fund are reconciled in the basic financial statements.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of an entity's financial position. In the case of the School, liabilities exceeded assets by \$902,086 at the close of the fiscal year. The School has \$101,976 of net position restricted for the purchase of capital improvements and \$20,000 restricted for the purpose of instructional support. These are lender and grantor-imposed restrictions. \$257,656 of net position is invested in capital assets net of its related debt. The remaining net position is unrestricted net position of \$766,406.

A comparative net asset analysis of fiscal year 2016-2015 follows:

Statements of Net Position
(Amounts Expressed in Thousands)

	Governmental Activities	
	2016	2015
ASSETS		
Current assets	\$ 304	\$ 578
Noncurrent assets	2,723	2,790
TOTAL ASSETS	3,027	3,368
LIABILITIES		
Current liabilities	324	254
Noncurrent liabilities	3,605	3,606
TOTAL LIABILITIES	3,929	3,860
NET POSITION		
Net investment in capital assets	(258)	(239)
Restricted	122	145
Unrestricted	(766)	(398)
TOTAL NET POSITION	\$ (902)	\$ (492)

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

Statements of Activities
(Amounts Expressed in Thousands)

	Governmental Activities	
	2016	2015
REVENUES		
General revenues		
Charges to school districts	\$ 968	\$ 1,006
State aid not restricted	1,950	1,893
Federal aid not restricted	372	378
Earnings on cash and investments	1	1
Other local sources	26	31
Program revenues		
Operating grants and contributions	131	128
TOTAL REVENUES	3,448	3,437
EXPENSES		
Instructional services	2,946	2,632
Support services		
Operation and maintenance of facilities	326	341
Transportation	315	243
School lunch service	155	173
Interest on long-term debt	116	118
TOTAL EXPENSES	3,858	3,507
CHANGE IN NET POSITION	(410)	(70)
NET POSITION, BEGINNING OF YEAR	(492)	(422)
NET POSITION, END OF YEAR	\$ (902)	\$ (492)

For 2016, the Statement of Activities shows the cost of programs and support services are greater than the general and program revenues.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with statutory requirements. The purpose of the School's Governmental Fund is to provide information on near term inflows, outflows and balances of available resources. Such information is useful in assessing the School's net resources at the end of the fiscal year. As of the end of the current fiscal year, the School reported a fund deficit of \$-20,354, a decrease of \$346,189 in comparison to the prior year. \$-142,330 constitutes unrestricted fund balance. The remainder of the fund balance is restricted to indicate that it is not available for new spending due to commitments to liquidate purchase orders of the prior period.

Governmental Fund

The table that follows assists in illustrating the financial activities of the General Fund (amounts expressed in thousands).

	<u>2016</u>	<u>2015</u>
REVENUES		
Charges to school districts	\$ 968	\$ 1,006
State aid not restricted	1,950	1,893
Federal aid not restricted	372	379
Earnings on cash and investments	1	-
Contributions	131	128
School programs	<u>26</u>	<u>31</u>
TOTAL REVENUES	\$ <u>3,448</u>	\$ <u>3,437</u>
EXPENDITURES		
Current		
Instructional services	\$ 2,901	\$ 2,831
Support services		
Operation and maintenance of facilities	248	263
Transportation	315	243
Food service	155	173
Debt service		
Principal	59	57
Interest	<u>116</u>	<u>118</u>
TOTAL EXPENDITURES	\$ <u>3,794</u>	\$ <u>3,685</u>

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

The majority of the School's revenue, 95%, comes from state and federal sources and local school districts. State and local revenue are contingent upon the School's total enrollment and the students' residential districts. Contributions account for 4% of total revenue. The reliance on this revenue is to support program and facility expenditures that are not funded for in federal, state and local funds. The remaining 1% is derived from school program fees.

General Fund Budget Information

The School's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted fund is the General Fund.

Appropriate adjustments are made to the budget based on unanticipated revenue increases or shortfalls due to federal, state and Delaware Department of Education requirements and/or legislation, lack of contributions, etc.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown in the Budgetary Comparison Schedule within the financial statements.

Revenues

State Aid - The favorable variance of \$96,397 is attributable miscellaneous appropriations funded by DOE in addition to the general fund.

Contributions - The favorable variance of \$51,134 is the result of increased corporate grants awarded in 2016.

Federal Aid - The favorable variance of \$12,402 is attributable to prior year carry over funding spent in the current fiscal year.

Expenditures

Salaries and Employment Costs - The favorable variance of \$63,046 is attributable to staff turnover filled with long term substitutes.

Contractual Services - The unfavorable variance of \$139,043 is the result of special education services and alternative placement services needed for students requiring greater support needs than Prestige could support with staff. In addition, increased substitute staff needed to fill staff turnovers.

Transportation - The unfavorable variance of \$77,178 is a result of transportation needs of students placed in alternative education facilities.

Supplies and Materials - The favorable variance of \$28,834 is a result of cost cuts during the year to preserve resources.

Public Utilities - The favorable variance of \$10,970 is a result of mild temperatures during the winter months resulting in less energy demands.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2016

Capital Assets

The School has -\$257,656 invested in capital assets and associated loan acquisition costs net of depreciation and amortization, respectively. All assets are attributable to governmental activities. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

Long-Term Debt

On June 29, 2009, The Prestige Academy Foundation, LLC, a component unit of the Prestige Academy Charter School, acquired a mortgage in the amount of \$3,000,000 at an interest rate of 6.00% to purchase the School's current facility at 1121 Thatcher Street. The loan was refinanced in April 2012 to lower the interest rate to 4.00%. Detailed information regarding long-term debt activity is included in the notes to the basic financial statements. The mortgage matures in May 2017 resulting in the full principal balance of \$2,817,294 becoming due. Management is currently exploring refinancing options and anticipates that the loan will be refinanced for a minimum of a five year term.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

The School funding is dependent upon student enrollment. Any decrease in student enrollment can significantly decrease funding. In May 2015, The School came under formal review by Department of Education due its declining enrollment. The School provided a plan to increase enrollment and a budget to show that the school was economically viable at its current enrollment number of 213 students. DOE will continue to monitor The School's progress over fiscal year 2016. In the event the school is unable to increase enrollment to the School's chartered enrollment, the School could be subject to revocation of its charter. During 2016, the School obtained an approved charter modification to reduce its enrollment to 240 students and change its grade configuration to sixth to eighth grade. The school has developed a strategic plan to increase its enrollment efforts. Management believes that these changes will result in increased enrollment during fiscal year 2017. Management reviews monthly the actual performance against the budget to timely respond to any significant variances. In addition, resources will need to be acquired to support program expenses not adequately funded at the federal and state level. In anticipation of these events, the School is taking steps to increase the percentage of funding from nongovernmental resources.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Prestige Academy Charter School's finances to all interested parties. If you have questions about the report or need additional financial information, contact the School's Business Office at 302-762-3240.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	
Unrestricted	\$ 159,328
Restricted	121,976
Deposits	8,145
Receivables, other	14,575
Capital assets	
Nondepreciable	430,000
Depreciable	<u>2,120,808</u>
TOTAL ASSETS	<u>2,854,832</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding, net of amortization of \$62,920	8,830
Deferred contributions and changes in proportion related to pension activities	<u>163,577</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>172,407</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 3,027,239</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Accounts payable	
Trade	\$ 91,223
Due to State of Delaware, pension costs	32,185
Accrued salaries	200,970
Net pension liability	515,467
Long-term debt	
Portion due or payable within one year	<u>2,817,294</u>
TOTAL LIABILITIES	<u>3,657,139</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred investments earnings related to pension activities	<u>272,186</u>
NET POSITION	
Net investment in capital assets	(257,656)
Restricted	
Capital improvements	101,976
Instructional support	20,000
Unrestricted	<u>(766,406)</u>
TOTAL NET POSITION	<u>(902,086)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 3,027,239</u>

See accompanying notes to the basic financial statements.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)

STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Instructional services	\$ 2,945,886	\$ 26,394	\$ 366,596	\$ (2,552,896)
Support services				
Operation and maintenance of facilities	326,373	-	-	(326,373)
Transportation	315,178	-	-	(315,178)
School lunch service	154,862	-	136,400	(18,462)
Interest on long-term debt	116,300	-	-	(116,300)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 3,858,599	\$ 26,394	\$ 502,996	\$ (3,329,209)
GENERAL REVENUES				
Charges to school districts				967,953
State aid not restricted to specific purposes				1,950,269
Earnings on cash and investments				854
TOTAL GENERAL REVENUES				2,919,076
CHANGE IN NET POSITION				(410,133)
NET POSITION AT BEGINNING OF YEAR				(491,953)
NET POSITION AT END OF YEAR				\$ (902,086)

See accompanying notes to the basic financial statements.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)

BALANCE SHEET
 GOVERNMENTAL FUND
 JUNE 30, 2016

	<u>General Fund</u>	<u>Prestige Academy Foundation, LLC</u>	<u>Total Governmental Fund</u>
ASSETS			
Cash and cash equivalents			
Unrestricted	\$ 126,937	\$ 32,391	\$ 159,328
Restricted	121,976	-	121,976
Deposits	8,145	-	8,145
Other receivables	<u>14,575</u>	<u>-</u>	<u>14,575</u>
TOTAL ASSETS	<u>\$ 271,633</u>	<u>\$ 32,391</u>	<u>\$ 304,024</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable			
Trade	\$ 91,221	\$ -	\$ 91,221
Due to State of Delaware, pension costs	32,185	-	32,185
Accrued salaries	<u>200,972</u>	<u>-</u>	<u>200,972</u>
TOTAL LIABILITIES	<u>324,378</u>	<u>-</u>	<u>324,378</u>
FUND BALANCE			
Restricted			
Capital improvements	101,976	-	101,976
Instructional support	20,000	-	20,000
Unassigned	<u>(174,721)</u>	<u>32,391</u>	<u>(142,330)</u>
TOTAL FUND BALANCE	<u>(52,745)</u>	<u>32,391</u>	<u>(20,354)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 271,633</u>	<u>\$ 32,391</u>	<u>\$ 304,024</u>

See accompanying notes to the basic financial statements.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

TOTAL GOVERNMENTAL FUND BALANCE \$ (20,354)

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. Capital assets, net of accumulated depreciation as detailed in the footnotes, are included in the statement of net position. 2,550,808

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the fund.

Deferred charge on refunding 8,830

Deferred contributions and changes in proportion related to pension activities 163,577

Long-term liabilities applicable to governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities. Those liabilities consist of:

Mortgage payable (2,817,294)

Net pension liability (515,467)

Deferred investment earnings related to pension activities (272,186)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (902,086)

See accompanying notes to the basic financial statements.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2016

	General Fund	Prestige Academy Foundation, LLC	Total Governmental Funds
REVENUES			
Charges to school districts	\$ 967,953	\$ -	\$ 967,953
State aid	1,950,269	-	1,950,269
Federal aid	371,795	-	371,795
Earnings on cash and investments	839	15	854
Contributions	131,201	-	131,201
Other local sources	26,394	-	26,394
TOTAL REVENUES	3,448,451	15	3,448,466
EXPENDITURES			
Current			
Instructional services	2,901,122	-	2,901,122
Support services			
Operation and maintenance of facilities	247,756	-	247,756
Transportation, buses	315,178	-	315,178
Food services	154,862	-	154,862
Debt service			
Principal	59,437	-	59,437
Interest	116,300	-	116,300
TOTAL EXPENDITURES	3,794,655	-	3,794,655
OTHER FINANCING SOURCES (USES)			
Transfers in	10,000	10,000	20,000
Transfers out	(10,000)	(10,000)	(20,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	(346,204)	15	(346,189)
FUND BALANCE AT BEGINNING OF YEAR	293,459	32,376	325,835
FUND BALANCE AT END OF YEAR	\$ (52,745)	\$ 32,391	\$ (20,354)

See accompanying notes to the basic financial statements.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
 RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
 REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2016

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUND \$ (346,189)

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

The Governmental Fund reports capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense (64,267)

The Government Fund reports pension contributions as expenditures. However, in the statement of activities, these contributions reduce the net pension liability.

(44,764)

The issuance of long-term debt provides current financial resources to the Governmental Fund, while the repayment of the principal of long-term debt consumes the current financial resources of the Governmental Fund.

Payment of note principal 59,437
 Amortization of deferred charge on refunding (14,350)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (410,133)

See accompanying notes to the basic financial statements.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

Prestige Academy Charter School (the "School") is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent Board of Directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions--they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. An initial charter is granted for a three-year period, renewable every five years thereafter. The School obtained its initial charter in July 2008. In 2012, its charter was extended for an additional five years.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

The financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to local governmental 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.

Reporting Entity

The School is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The GASB established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the School's financial reporting entity are financial interdependence, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financing relationships. Based upon the above criteria, the School has one blended component unit, The Prestige Academy Foundation, LLC (the "Foundation"), for which it is considered to be financially accountable. The Foundation was legally formed on June 24, 2009, with the sole purpose of purchasing real estate for the use of the School. The School is the sole member of the Foundation. The assets, liabilities, revenues and expenses of the Foundation have been included in the School's financial statements herein.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted for meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for the Governmental Fund.

Measurement Focus, Basis of Accounting and Financial Statements Presentation

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

Amounts reported as program revenues include (1) charges to students for special fees, supplies, or services provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

The Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measureable and available.

Revenues are 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 revenues 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.

Charges to the School and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measureable and available only when the School receives cash.

The School reports the following major Governmental Fund:

- The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data

General Fund budgets are presented on the modified accrual basis of accounting. Annual appropriations lapse at fiscal year-end with the exception of those indicated as a fund balance reserve.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Capital Assets

The School defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated 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 the lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

	<u>Years</u>
Buildings	40
Furniture and fixtures	5-7
Leasehold improvements	8
Software	3-5

Unearned Revenues

Unearned revenues represent funds received in advance, which will be recognized in future years when the revenue recognition criteria are met. There were no unearned revenues as of June 30, 2016.

Compensated Absences

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. Availability for these amounts is reported in the Governmental Fund only when the liability matures, for example, as a result of employee resignations and retirements.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation - Vacation cannot be accumulated from year to year. Any unused vacation days as of June 30 of each year lapse and are unpaid.

Sick Leave - Sick leave allowances are ten days per full-time employee and cannot be accumulated from year to year.

There were no compensated absences as of June 30, 2016.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School has only two items that qualify for reporting in this category. They are the deferred charge on refunding reported in the government-wide statement of net position and the deferred outflow related to pension activity, reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition prices. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflow related to pension activity is the result of changes in the School's proportionate share of the total plan from year to year, the difference between actual employer contributions and the School's proportionate share of total contributions, and actual contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School has one item that qualifies for reporting in this category. Deferred inflows related to pension activity, is reported in the government-wide statement of net position. The deferred inflow related to pension activity is the result of differences between projected and actual investment earnings. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Balance

In the fund financial statements, the Governmental Fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The classifications used in the Governmental Fund financial statements are as follows:

- ***Nonspendable:*** This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) are legally or contractually required to be maintained intact. The School has no items classified as being nonspendable.
- ***Restricted:*** This classification includes amounts for which constraints have been placed on the use of the resources either (1) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted funds consist of monies designated by the mortgage lender to be used for debt reserve and capital improvements, as well as contributions with donor-imposed restrictions.
- ***Committed:*** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal vote of the Board of Directors (the highest level of decision-making authority of the School). These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (formal vote of the Board of Directors) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2016.
- ***Assigned:*** This classification includes amounts that are constrained by the School's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the Executive Director.
- ***Unassigned:*** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other Governmental Fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Deferred Charge on Refunding

The deferred charge on refunding is reported in the government-wide statement of net position and results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the School's financial statements. In addition, the School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

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.

NOTE B - CASH AND CASH EQUIVALENTS

At June 30, 2016, the School had a cash and cash equivalents balance of \$281,304. Of this amount, \$83,444 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. Of the total cash balance, \$101,976 is restricted by the mortgage lender to be used for debt reserve and capital improvements and is held in a Capital One Business Savings account earning .40% interest. Because the State of Delaware investment pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is deemed to be a cash equivalent.

Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk.

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 of Delaware. 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.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE C - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 430,000	\$ -	\$ -	\$ 430,000
Capital assets being depreciated				
Building	2,570,676	-	-	2,570,676
Software	37,000	-	-	37,000
TOTAL CAPITAL ASSETS BEING DEPRECIATED	<u>2,607,676</u>	<u>-</u>	<u>-</u>	<u>2,607,676</u>
Accumulated depreciation				
Building	(385,601)	(64,267)	-	(449,868)
Software	(37,000)	-	-	(37,000)
TOTAL ACCUMULATED DEPRECIATION	<u>(422,601)</u>	<u>(64,267)</u>	<u>-</u>	<u>(486,868)</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED, net	<u>2,185,075</u>	<u>(64,267)</u>	<u>-</u>	<u>2,120,808</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, net	<u>\$ 2,615,075</u>	<u>\$ (64,267)</u>	<u>\$ -</u>	<u>\$ 2,550,808</u>

Depreciation expense was charged to the governmental functions as follows:

Support services	<u>\$ 64,267</u>
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NOTE D - PENSION PLAN

Summary of Significant Accounting Policies

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Delaware Public Employees' Retirement System ("DPERS") and additions to/deductions from DPERS's fiduciary net position have been determined on the same basis as they are reported by DPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE D - PENSION PLAN (Continued)

General Information About the Pension Plan

Plan Description - DPERS is a governmental cost-sharing multi-employer defined benefit pension plan that provides retirement benefits to virtually all full-time or regular part-time employees of the State of Delaware, including employees of other affiliated entities. There are two tiers within the plan: 1) Employees hired prior to January 1, 2012 (Pre-2012), and 2) Employees hired on or after January 1, 2012 (Post-2011). DPERS issues a publicly available financial report that can be obtained from the pension office at McArdle Building, Suite 1; 860 Silver Lake Blvd.; Dover, DE, 19904.

Benefits Provided - DPERS provides retirement, disability and death benefits. Pre-2012 members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least five years of credited service; (b) age 60 with 15 years of credited service; or (c) 30 or more years of service regardless of age. Post-2011 members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least ten years of credited service; (b) age 60 with 20 years of credited service; or (c) 30 or more years of service regardless of age.

Pre-2012 participants are eligible for disability benefits after five years of credited service. In lieu of disability pension benefits, over 90% of the members in this Plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Post-2011 participants are not offered disability pension benefits and are in the Disability Insurance Program.

Death benefits are payable upon the death of an active member who has reached age 62 with at least five years of credited service. Such benefits are paid at 75% of the benefit the employee would have received at age 62. If an employee is currently receiving a pension, the eligible survivor receives 50% of the pension benefit (or 75% with 3% reduction of benefit). Burial benefits of \$7,000 per member are also provided.

Contributions

Members Contributions

- Pre-2012 members contribute at 3% of earnings in excess of \$6,000.
- Post-2011 members contribute at 5% of earnings in excess of \$6,000.

Employer Contributions

Employer contributions are determined by the Board of Pension Trustees. Employer contributions were 9.56% of earnings for the fiscal year 2016. Contributions to the plan from the School were \$150,889 for the year ended June 30, 2016.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE D - PENSION PLAN (Continued)

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the School reported a liability of \$515,467 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by rolling forward the System's total pension liability as of June 30, 2014 to June 30, 2015. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported contributions as it relates to the total one-year reported contributions. At June 30, 2015, the School's proportion was 0.0775%, which was an increase of 0.0129% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized expense from pension changes of \$195,653. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 11,563
Net difference between projected and actual investment earnings	-	157,607
Changes in proportions	12,688	103,016
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the measurement date	<u>150,889</u>	<u>-</u>
	<u>\$ 163,577</u>	<u>\$ 272,186</u>

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE D - PENSION PLAN (Continued)

\$150,889 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2017	\$ (117,049)
2018	(117,049)
2019	(117,049)
2020	13,680
2021	<u>77,969</u>
	<u>\$ (259,498)</u>

Actuarial Assumptions - The total pension liability as of June 30, 2015, was determined by rolling forward the System's total pension liability as of the June 30, 2014 actuarial valuation to June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

- **Investment Return** - 7.2%, includes inflation at 3.00%
- **Salary Increases** - 3.5% to 11.5%, includes inflation at 3.00%
- Mortality rates were based on the Sex distinct RP-2000 Combined Mortality Table projected to 2015 using scale AA for males or females, as appropriate, for mortality improvement

The total pension liabilities are measured based on assumptions pertaining to the interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)

NOTES TO THE BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE D - PENSION PLAN (Continued)

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's current and expected asset allocation is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	36.5%	5.7%
International equity	16.5%	5.7%
Fixed income	22.6%	2.0%
Alternative investments	19.6%	7.8%
Cash and equivalents	4.8%	0.0%
	<u>100.0%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at rates determined by the Board of Pension Trustees, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE D - PENSION PLAN (Continued)

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability, calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20%) or one percentage point higher (8.20%) than the current rate:

	1% Decrease 6.20%	Current Discount Rate 7.20%	1% Increase 8.20%
Charter School's proportionate share of the net pension liability	\$ 1,164,872	\$ 515,467	\$ (245,431)

Pension Plan Fiduciary Net Position - Detailed information about DPERS's fiduciary net position is available in the DPERS Comprehensive Annual Financial Report which can be obtained from the pension office at McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, DE, 19904.

NOTE E - LONG-TERM DEBT

On June 29, 2009, the Foundation acquired a mortgage in the amount of \$3,000,000 at an interest rate of 6.00% to purchase the School's current facility at 1121 Thatcher Street. The loan was scheduled to mature in July 2014. This loan was refinanced in April 2012 for \$3,060,000 at a rate of 4.00% to mature in May 2017. As of June 30, 2016, the School was in default of the bank loan covenants. However, the lender has indicated that they do not plan to take action at this time.

The loan balance at June 30, 2016 was \$2,817,294. The School is currently working to acquire a mortgage to refinance the principal balance that will come due in May 2017 for an additional term of at least five years.

Changes in long-term debt are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
2012 loan	\$ 2,876,731	\$ -	\$ (59,437)	\$ 2,817,294	\$ 2,817,294
Net pension liability	333,047	182,420	-	515,467	-
2012 loan	\$ 3,209,778	\$ 182,420	\$ (59,437)	\$ 3,332,761	\$ 2,817,294

Interest expense for the year ended June 30, 2015, was \$116,300.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE F - RISK MANAGEMENT

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

NOTE G - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various outstanding 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.

Due Process Complaints

The School has been named in three separate due process complaints involving students at the School. The School has not recorded a provision for this matter as management intends to vigorously defend these allegations and believes the payment of the penalty is not probable. The School believes, however, that any liability it may incur would not have a material adverse effect on its financial condition or its results of operations.

Grants

The School receives financial assistance from federal and private agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts and the respective local private agency. Any disallowed claims resulting from such audits could become a liability of the General Fund. The School's administration believes such disallowance, if any, would be immaterial.

NOTE H - ECONOMIC DEPENDENCY

School revenues that constitute in excess of 10% of total revenues are comprised of the following:

State subsidy.....	57%
Local sources (primarily charges to school districts).....	28%
Federal subsidy.....	11%

**PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)**

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE I - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following functions:

Travel	\$ 10,280
Contractual services	139,043
Communications	990
Insurance	2,277
Transportation, buses	77,178
Repairs and maintenance	6,450
Debt service - principal	90
Debt service - interest	<u>339</u>
	<u>\$ 236,647</u>

NOTE J - GOING CONCERN

The School has also been experiencing operating deficits and declining enrollment over the last several school years. Also, as noted in Note E, the School's loan debt is set to mature in May 2017 with the full remaining principal balance due at that time. As of the date of the financial statements, the School had not obtained a commitment to refinance the debt. As such, there is substantial doubt as to the School's ability to continue as a going concern. The School intends to refinance the debt and take steps to increase enrollment.

NOTE K – SUBSEQUENT EVENTS

On October 1, 2016, the School made the decision and notified the State of Delaware Department of Education to not seek charter renewal for the 2017-2018 school year. The School intends to continue operations for the 2016-2017 school year and close in the spring of 2017.

REQUIRED SUPPLEMENTARY INFORMATION

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Charges to school districts	\$ 971,964	\$ 971,045	\$ 967,953	\$ (3,092)
State aid	1,946,119	1,853,872	1,950,269	96,397
Federal aid	383,259	359,393	371,795	12,402
Earnings on cash and investments	-	-	839	839
Contributions	28,488	80,067	131,201	51,134
Other local sources	22,251	22,251	26,394	4,143
TOTAL REVENUES	3,352,081	3,286,628	3,448,451	161,823
EXPENDITURES				
Salaries and employment costs	2,342,842	2,423,916	2,360,870	63,046
Travel	1,000	872	11,152	(10,280)
Contractual services	422,482	454,408	593,451	(139,043)
Communications	10,500	10,500	11,490	(990)
Public utilities service	72,000	80,000	69,030	10,970
Insurance	23,000	23,000	25,277	(2,277)
Transportation, buses	254,000	238,000	315,178	(77,178)
Repairs and maintenance	147,000	147,000	153,450	(6,450)
Supplies and materials	112,000	107,854	79,020	28,834
Debt service				
Principal	59,347	59,347	59,437	(90)
Interest	115,961	115,961	116,300	(339)
TOTAL EXPENDITURES	3,560,132	3,660,858	3,794,655	(133,797)
EXCESS OF REVENUES OVER EXPENDITURES	(208,051)	(374,230)	(346,204)	28,026
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	10,000	10,000
Transfers out	-	-	(10,000)	(10,000)
NET CHANGE IN FUND BALANCE	\$ (208,051)	\$ (374,230)	(346,204)	\$ 28,026
FUND BALANCE AT BEGINNING OF YEAR			293,459	
FUND BALANCE AT END OF YEAR			\$ (52,745)	

See accompanying notes to the budgetary comparison schedule.

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
NOTES TO THE BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2016

NOTE A - BASIS OF ACCOUNTING

The accompanying budgetary comparison schedule is prepared on the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are 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 revenues 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.

NOTE B - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

These excess expenditures were funded by various functions that were under budget in the General Fund and fund balance carried forward from the prior year.

PRESTIGE ACADEMY CHARTER SCHOOL
SCHEDULES OF THE SCHOOL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
School's proportion of the net pension liability (asset)	<u>0.0775%</u>	<u>0.0904%</u>
School's proportionate share of the net pension liability (asset)	\$ <u>515,467</u>	\$ <u>333,047</u>
School's covered-employee payroll	\$ <u>1,445,042</u>	\$ <u>1,654,414</u>
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>35.67%</u>	<u>20.13%</u>
The plan's fiduciary net position as a percentage of the total pension liability	<u>92.67%</u>	<u>95.80%</u>

PRESTIGE ACADEMY CHARTER SCHOOL
SCHEDULES OF SCHOOL CONTRIBUTIONS
LAST TWO FISCAL YEARS

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 150,889	\$ 138,146
Contributions in relation to the contractually required contribution	<u>150,889</u>	<u>138,146</u>
CONTRIBUTION (EXCESS) DEFICIENCY	\$ <u>-</u>	\$ <u>-</u>
School's covered-employee payroll	\$ <u>1,578,337</u>	\$ <u>1,445,042</u>
Contributions as a percentage of covered-employee payroll	<u>9.56%</u>	<u>9.56%</u>

SUPPLEMENTARY INFORMATION SECTION

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
COMBINING BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2016

	General Fund			Prestige Academy Foundation, LLC	Total Governmental Fund
	State Allocation	Local Funding	Federal Funding	Local Funding	
ASSETS					
Cash and cash equivalents					
Unrestricted	\$ 35,644	\$ 91,293	\$ -	\$ 32,391	\$ 159,328
Restricted	-	121,976	-	-	121,976
Deposits	-	8,145	-	-	8,145
Other receivables	-	14,575	-	-	14,575
TOTAL ASSETS	\$ 35,644	\$ 235,989	\$ -	\$ 32,391	\$ 304,024
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable					
Trade	\$ -	\$ 91,221	\$ -	\$ -	\$ 91,221
Due to State of Delaware, pension costs	-	32,185	-	-	32,185
Accrued salaries	-	200,972	-	-	200,972
TOTAL LIABILITIES	-	324,378	-	-	324,378
FUND BALANCE					
Restricted	-	121,976	-	-	121,976
Unassigned	35,644	(210,365)	-	32,391	(142,330)
TOTAL FUND BALANCE	35,644	(88,389)	-	32,391	(20,354)
TOTAL LIABILITIES AND FUND BALANCE	\$ 35,644	\$ 235,989	\$ -	\$ 32,391	\$ 304,024

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2016

	General Fund			Prestige Academy Foundation, LLC	Total Governmental Fund
	State Allocation	Local Funding	Federal Funding	Local Funding	
REVENUES					
Charges to school districts	\$ -	\$ 967,953	\$ -	\$ -	\$ 967,953
State aid	1,950,269	-	-	-	1,950,269
Federal aid	-	136,400	235,395	-	371,795
Earnings on cash and investments	-	839	-	15	854
Contributions	-	131,201	-	-	131,201
School lunch service grant	-	-	-	-	-
School lunch fees	-	-	-	-	-
Other local sources	-	26,394	-	-	26,394
TOTAL REVENUES	1,950,269	1,262,787	235,395	15	3,448,466
EXPENDITURES					
Current					
Instructional services	1,525,060	1,140,667	235,395	-	2,901,122
Support services					
Operation and maintenance of facilities	173,112	74,644	-	-	247,756
Transportation, buses	198,660	116,518	-	-	315,178
Food services	3,079	151,783	-	-	154,862
Debt service					
Principal	49,634	9,803	-	-	59,437
Interest	96,886	19,414	-	-	116,300
TOTAL EXPENDITURES	2,046,431	1,512,829	235,395	-	3,794,655
DEFICIENCY OF REVENUES OVER EXPENDITURES	(96,162)	(250,042)	-	15	(346,189)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	10,000	-	10,000	20,000
Transfers out	-	(10,000)	-	(10,000)	(20,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
NET CHANGE IN FUND BALANCE	(96,162)	(250,042)	-	15	(346,189)
FUND BALANCE AT BEGINNING OF YEAR	131,806	161,653	-	32,376	325,835
FUND BALANCE AT END OF YEAR	\$ 35,644	\$ (88,389)	\$ -	\$ 32,391	\$ (20,354)

PRESTIGE ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>
EXPENDITURES	
Salaries	\$ 1,631,987
Employment costs	728,883
Travel	11,152
Contractual services	593,451
Communications	11,490
Public utilities service	69,030
Insurance	25,277
Transportation, buses	315,178
Repairs and maintenance	153,450
Supplies and materials	79,020
Debt service	
Principal	59,437
Interest	<u>116,300</u>
 TOTAL EXPENDITURES	 \$ <u><u>3,794,655</u></u>

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Directors
Prestige Academy Charter School
Wilmington, Delaware

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Prestige Academy Charter School as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Prestige Academy Charter School's basic financial statements, and have issued our report thereon dated October 6, 2016.

Internal Control Over Financial Reporting

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

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

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

To the Board of Directors
Prestige Academy Charter School
Wilmington, Delaware

Compliance and Other Matters

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

Purpose of this Report

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

Maille LLP

West Chester, Pennsylvania
October 6, 2016