

UNIVERSITY PREPARATORY ACADEMY  
FINANCIAL STATEMENTS  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2008

UNIVERSITY PREPARATORY ACADEMY  
FINANCIAL STATEMENTS  
JUNE 30, 2008

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**GREGORY  
TERRELL  
& COMPANY**

To the Board of Directors  
University Preparatory Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate fund information of the University Preparatory Academy as of and for the year ended June 30, 2008, as listed in the accompanying table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

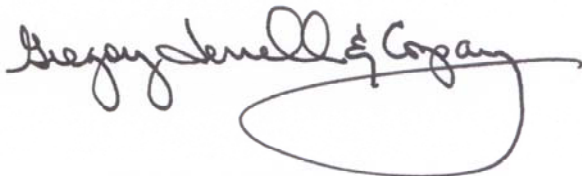
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the University Preparatory Academy as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated September 12, 2008 on our consideration of the University Preparatory Academy's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The supplemental information is information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Gregory Terrell & Company". The signature is written in black ink and includes a large, sweeping underline that loops back under the text.

**GREGORY TERRELL & COMPANY**  
Certified Public Accountants

September 12, 2008

UNIVERSITY PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF JUNE 30, 2008

This section of the University Preparatory Academy's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2008. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand University Preparatory Academy financially as a whole. The Government-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Government-wide financial statements by providing information about the Academy's most significant funds – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Academy acts solely as an agent for the benefit of students and parents.

*Management's Discussion and Analysis (MD&A)*  
*(Required Supplemental Information)*

**Basic Financial Statements**

*Government-wide Financial Statements      Fund Financial Statements*

*Notes to the Basic Financial Statements*

*(Required Supplemental Information)*  
*Budgetary Information for Major Funds*

*Other Supplemental Information*

UNIVERSITY PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF JUNE 30, 2008

***Reporting the Academy as a Whole – Government-wide Financial Statements***

One of the most important questions asked about the Academy is, “As a whole, what is the Academy’s financial condition as a result of the year’s activities?” The statement of net assets and the statement of activities, which appear first in the Academy’s financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy’s net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy’s financial health or financial position. Over time, increases or decreases in the Academy’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy’s operating results. However, the Academy’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy. The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy’s services, including instruction, support services, community services, athletics, after school programs and food services. Unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

***Reporting the Academy’s Most Significant Funds – Fund Financial Statements***

The Academy’s fund financial statements provide detailed information about the most significant funds – not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (the Food Service is an example) or to show that it is meeting legal responsibilities for using grants, and other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds – All of the Academy’s services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all

UNIVERSITY PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF JUNE 30, 2008

other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

***The Academy as Trustee – Reporting the Academy's Fiduciary Responsibilities***

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**The Academy as a Whole**

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30, 2008 and 2007:

Table 1

	<u>Governmental Activities</u>	
	<u>June 30</u>	
	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Current and other assets	\$ 3,196,124	\$12,565,681
<b>Liabilities</b>		
Current liabilities and other liabilities	2,485,742	12,253,567
<b>Net Assets</b>		
Unrestricted	<u>\$ 710,382</u>	<u>\$ 312,114</u>

UNIVERSITY PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF JUNE 30, 2008

Total assets and liabilities decreased significantly from June 30, 2007 to June 30, 2008. As stated in Note 9, Long Term Debt Footnote, of these financial statements, NUL Leasehold Holding I, Inc. assumed the Academy's \$10 million payable to NCB Development Corporation. In addition, NUL Leasehold Holding I, Inc. acquired the \$9,860,000 of prepaid rent the Academy held at June 30, 2008.

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's unrestricted net assets were \$312,114 at June 30, 2007 and \$710,382 at June 30, 2008. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal year 2008 and 2007.

Table 2	<u>Governmental Activities</u> <u>Year Ending June 30</u>	
	<u>2008</u>	<u>2007</u>
<b>Revenue</b>		
Program revenue:		
Operating Grants	\$ 1,341,791	\$2,137,967
General revenue:		
State foundation allowance	\$9,576,265	\$8,971,833
Miscellaneous Revenue	<u>1,167,641</u>	<u>887,971</u>
Total revenue	12,085,697	11,997,771
<b>Functions/Program Expenses</b>		
Instruction	6,459,649	6,580,083
Support services	4,611,811	4,795,723
Food services	208,930	319,271
Interest	<u>407,039</u>	<u>555,463</u>
Total expenses	<u>11,687,429</u>	<u>12,250,540</u>
<b>Increase in Net Assets</b>	398,268	(252,769)
<b>Net Assets - Beginning of year</b>	<u>312,114</u>	<u>564,883</u>
<b>Net Assets - End of year</b>	<u>\$ 710,382</u>	<u>\$ 312,114</u>

UNIVERSITY PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF JUNE 30, 2008

As reported in the statement of activities, the cost of all of our *governmental* activities for the years ended June 30, 2007 and 2008 were \$12.3 million and \$11.7 million, respectfully. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$2,137,967 in 2007 and \$1,341,791 in 2008). We paid for the remaining "public benefit" portion of our governmental activities with \$8,971,833 in 2007 and \$9,576,265 in 2008 in State foundation allowance, and with our other revenues, i.e., interest and contributions.

The Academy experienced an increase in net assets of \$398,268. Key reasons for the change in net assets were attributed to an increase in interim financial reporting, budget monitoring and financial staffing changes.

**General Fund Budgetary Highlights**

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

**Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration consider many factors when setting the Academy's 2008-2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008-09 fiscal year is 25 percent and 75 percent of the February 2009 and September 2008 student counts, respectively. The Academy expects to fully enroll the 1623 openings in its schools.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to Academy's. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

UNIVERSITY PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF JUNE 30, 2008

**Contacting the District's Management**

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Business Office, University Preparatory Academy 600 Antoinette Detroit, MI 48202

UNIVERSITY PREPARATORY ACADEMY  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

	<b>Governmental Activities</b>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 1,202,670
Due from Other Governmental Units	1,827,048
Accounts Receivable	158,406
Prepaid Insurance	8,000
<b>Total Assets</b>	<b><u>\$ 3,196,124</u></b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>Current Liabilities</b>	
Accounts Payable	\$ 55,854
Accrued Expenditures	562,739
Loan Payable	<u>1,867,149</u>
<b>Total Liabilities</b>	<b><u>\$ 2,485,742</u></b>
<b>Net Assets</b>	
Unrestricted	<u>\$ 710,382</u>
<b>Total Net Assets</b>	<b><u>\$ 710,382</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 3,196,124</u></b>

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

UNIVERSITY PREPARATORY ACADEMY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

<u>Function / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u> Net (expenses) Revenues and
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Changes in Net Assets</u>
Governmental Activities:				
Instruction	\$ 6,459,649	\$ -	\$ 672,313	\$ (5,787,336)
Support Services	4,611,811	-	99,632	(4,512,179)
Food Services	208,930	-	162,807	(46,123)
Interest	407,039	-	407,039	-
Total Governmental Activities:	<u>\$ 11,687,429</u>	<u>\$ -</u>	<u>\$ 1,341,791</u>	<u>\$ (10,345,638)</u>
General Revenues:				
State of Michigan School Aid Unrestricted				\$ 9,576,265
Miscellaneous Revenue				<u>1,167,641</u>
Total General Revenues				<u>\$ 10,743,906</u>
Change in Net Assets				\$ 398,268
<b>Net Assets</b> , Beginning of Year				<u>312,114</u>
<b>Net Assets</b> , Ending of Year				<u>\$ 710,382</u>

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

UNIVERSITY PREPARATORY ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
<b>Assets</b>			
Cash and Cash Equivalents	\$ 1,202,670	\$ -	\$ 1,202,670
Due from Other Governmental Units	1,802,399	24,649	1,827,048
Accounts Receivable	158,406	-	158,406
Prepaid Insurance	8,000	-	8,000
Due from Other Funds	<u>24,649</u>	<u>18,979</u>	<u>43,628</u>
<b>Total Assets</b>	<b><u>\$ 3,196,124</u></b>	<b><u>\$ 43,628</u></b>	<b><u>\$ 3,239,752</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 36,875	\$ 18,979	\$ 55,854
Accrued Expenditures	562,739	-	562,739
Loan Payable	1,867,149	-	1,867,149
Due to Other Funds	<u>18,979</u>	<u>24,649</u>	<u>43,628</u>
<b>Total Liabilities</b>	<b><u>\$ 2,485,742</u></b>	<b><u>\$ 43,628</u></b>	<b><u>\$ 2,529,370</u></b>
<b>Fund Balances</b>			
Reserved for:			
Other Purposes			
Prepaid Insurance	\$ 8,000	\$ -	\$ 8,000
Unreserved, reported in:			
Unrestricted	<u>702,382</u>	<u>-</u>	<u>702,382</u>
<b>Total Fund Balances</b>	<b><u>\$ 710,382</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 710,382</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 3,196,124</u></b>	<b><u>\$ 43,628</u></b>	<b><u>\$ 3,239,752</u></b>

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

UNIVERSITY PREPARATORY ACADEMY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008

<b>Fund Balance - Governmental Fund</b>	\$ 710,382
Amounts reported for governmental activities in the statement of activities that are different:	<u>-</u>
<b>Change in Net Assets of Governmental Activities</b>	<u>\$ 710,382</u>

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

UNIVERSITY PREPARATORY ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
Local Sources	\$ 1,087,641	\$ 407,039	\$ 1,494,680
State Sources	9,576,265	-	9,576,265
Federal Sources	771,945	162,807	934,752
Total Revenues	<u>\$ 11,435,851</u>	<u>\$ 569,846</u>	<u>\$ 12,005,697</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Basic Programs	\$ 6,424,793	\$ -	\$ 6,424,793
Total Instruction	<u>\$ 6,424,793</u>	<u>\$ -</u>	<u>\$ 6,424,793</u>
Support Services:			
Pupil	\$ 64,901	\$ -	\$ 64,901
Instructional Staff	34,855	-	34,855
General Administration	859,181	-	859,181
School Administration	841,379	-	841,379
Business Service	881,869	-	881,869
Operations and Maintenance	1,052,129	-	1,052,129
Pupil Transportation	130,817	-	130,817
Central Support Services	386,362	-	386,362
Other Support Services	236,349	-	236,349
Debt Service			
Interest	<u>92,488</u>	<u>407,039</u>	<u>499,527</u>
Total Support Services	<u>\$ 4,580,330</u>	<u>\$ 407,039</u>	<u>\$ 4,987,369</u>
Community Services	<u>\$ 3,358</u>	<u>\$ -</u>	<u>\$ 3,358</u>
Food Services	<u>\$ -</u>	<u>\$ 208,930</u>	<u>\$ 208,930</u>
Capital Outlay	<u>\$ 62,979</u>	<u>\$ -</u>	<u>\$ 62,979</u>
Total Expenditures	<u>\$ 11,071,460</u>	<u>\$ 615,969</u>	<u>\$ 11,687,429</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 364,391</u>	<u>\$ (46,123)</u>	<u>\$ 318,268</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers In	\$ -	\$ 46,123	\$ 46,123
Operating Transfers Out	<u>(46,123)</u>	<u>-</u>	<u>(46,123)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ 318,268</u>	<u>\$ -</u>	<u>\$ 318,268</u>
Beginning of Year	<u>392,114</u>	<u>-</u>	<u>392,114</u>
End of Year	<u>\$ 710,382</u>	<u>\$ -</u>	<u>\$ 710,382</u>

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

UNIVERSITY PREPARATORY ACADEMY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Positive / (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
<b>REVENUES:</b>				
Local Sources	\$ 835,000	\$ 1,048,830	\$ 1,087,641	\$ 38,811
State Sources	9,708,727	9,564,439	9,576,265	11,826
Federal Sources	<u>934,433</u>	<u>974,646</u>	<u>934,752</u>	<u>(39,894)</u>
Total Revenues	<u>\$ 11,478,160</u>	<u>\$ 11,587,915</u>	<u>\$ 11,598,658</u>	<u>\$ 10,743</u>
<b>EXPENDITURES:</b>				
Personnel	\$ 8,510,176	\$ 8,152,928	\$ 8,145,012	\$ 7,916
Professional Services and Fees	733,642	870,015	856,910	13,105
Academic Enrichment	269,500	365,192	307,770	57,422
Curriculum Expense	221,000	147,263	128,082	19,181
Extracurricular	151,100	218,048	215,101	2,947
Facilities and Transportation	668,300	657,000	661,953	(4,953)
Technology	317,150	330,335	320,821	9,514
Utilities	348,000	343,000	327,728	15,272
Other Expenses	-	97,150	108,083	(10,933)
Food Service	<u>220,000</u>	<u>213,000</u>	<u>208,930</u>	<u>4,070</u>
Total Expenditures	<u>\$ 11,438,868</u>	<u>\$ 11,393,931</u>	<u>\$ 11,280,390</u>	<u>\$ 113,541</u>
Excess of Revenues over Expenditures	<u>\$ 39,292</u>	<u>\$ 193,984</u>	<u>\$ 318,268</u>	<u>\$ (102,798)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 39,292</u>	<u>\$ 193,984</u>	<u>\$ 318,268</u>	<u>\$ (102,798)</u>
Beginning of Year	<u>392,114</u>	<u>392,114</u>	<u>392,114</u>	<u>-</u>
End of Year	<u>\$ 431,406</u>	<u>\$ 586,098</u>	<u>\$ 710,382</u>	<u>\$ 102,798</u>

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

UNIVERSITY PREPARATORY ACADEMY  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2008

	<b><u>Student Activities- Agency Fund</u></b>
<b>Assets</b> - Due from General Fund	\$ <u>18,979</u>
<b>Liabilities</b> - Due to Student Groups	\$ <u>18,979</u>

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

UNIVERSITY PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
AS OF JUNE 30, 2008

(1) **ORGANIZATION**

University Preparatory Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act. No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation act of 1982, as amended, in January 2000 and began operations in July 2000.

On July 1, 2005, the Academy entered into a seven-year contract with Grand Valley State University to charter a public school academy. The contracts requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. Grand Valley State University is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays Grand Valley State University three (3%) percent of its state aid as administrative fees. The total administrative fees paid for the year ended June 30, 2008 were approximately \$271,718.

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS**

The academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of inter-fund activity has been removed from these statements. All of the Academy's activities are classified as governmental activities.

The statement of activities, demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid and other unrestricted items are not included as program revenues but instead as *general revenues*.

**Measurement focus, basis of accounting, and financial statement presentation**

The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements

UNIVERSITY PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)

(2) **ACADEMY-WIDE AND FUND FINANCIAL STATEMENTS** (Cont'd)

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Governmental fund financial statements are reported using the current *financial resources, measurement focus* and the *modified accrual basis of accounting*. 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 Academy 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. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid 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 measurable and available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The Academy reports the following non-major governmental funds:

The *school service fund* is the Academy's primary non-major fund. It is used to account for food services operations. It is a subsidiary operation and obligation of the General Fund.

The *debt service fund* is used to account for the proceeds of specific revenue sources that are restricted to expenditures for payment of long term debt principal and interest. Any operating deficit generated by this activity is the responsibility of the General Fund.

The *agency fund* is a fiduciary fund used to record transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the accounting principles outlined in the Michigan School Accounting Manual. The significant accounting policies followed by University Preparatory Academy (the "Academy") are described below:

UNIVERSITY PREPARATORY ACADEMY  
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JUNE 30, 2008  
(Continued)

(3) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

Cash and Cash Equivalents

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to cash.

Investments

Investments are stated at fair value.

Revenue Recognition

All grant and contract revenues are recognized only to the extent earned.

Use of Estimates

The preparation of general purpose financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Budgets and Budgetary Accounts

The General Fund budget was adopted on a basis consistent with accounting principles generally accepted in the United States of America and in compliance with the Uniform Budgeting and Accounting (P.A. 621 of 1978). A separate School Service Fund budget was not adopted.

For the year end June 30, 2008, expenditures exceeded appropriations as follows:

<u>General Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Facilities and Transportation	657,000	661,953	(4,953)
Other Expense	97,150	108,083	(10,933)

(4) **CASH AND CASH EQUIVALENTS**

The Academy's deposits are included on the balance sheet under the following classifications:

Cash and cash equivalents	<u>\$ 1,202,670</u>
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UNIVERSITY PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)

(4) **CASH AND CASH EQUIVALENTS (con't.)**

State law authorizes the Academy to make deposits in the accounts of federally insured financial institutions. Cash held by fiscal agents or trustees is secured in accordance with the requirements of the agency or trust agreement.

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned by the bank. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each financial institution; only those institutions with an acceptable estimated risk level are used as depositories. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,702,263. Of this amount \$200,000 was covered by federal depository insurance and \$1,502,263 was uninsured and uncollateralized.

(5) **DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units as of June 30, 2008 for the Academy's general fund was as follows:

State of Michigan – State Aid	\$ 1,740,898
State of Michigan – Federal Grants	<u>86,150</u>
Total	<u>\$ 1,827,048</u>

(6) **MANAGEMENT AGREEMENT**

For the year ended June 30, 2008, the Academy utilized a management company, New Urban Learning ("NUL"), a not-for-profit corporation, through June 30, 2009. NUL provides all Academy personnel, as well as all Academy management, executive administration, fiscal services, and curriculum services. NUL is reimbursed for its direct costs as approved in the Academy's budget. The management fee was set at not more than 3% of the Academy's state aid receipts. The management fees for the year ended June 30, 2008 were approximately \$228,922.

(7) **SHORT-TERM DEBT**

Loans payable at June 30, 2008 represents the outstanding balance of a \$2,500,000 line of credit secured by the Academy's state school aid fund with interest at the rate of prime minus two points. For the year ended June 30, 2008, the outstanding balance was \$1,867,149.

UNIVERSITY PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)

(8) **COMMITMENTS**

The Academy is obligated under three operating leases for its elementary, middle and high school facilities with a Michigan Non-Profit Foundation. The leases require annual base rents of \$1 each, expiring June 30, 2010.

Under the terms of the high school lease, the Academy is responsible for all required maintenance for the facility. Commencing in the fourth year of the lease, the Academy is required to expend a minimum of \$160,000 annually for fixtures, furnishings, and equipment at the facility. If the full \$160,000 is not expended, the shortfall shall be placed in an escrow account in the name of the landlord. In addition, the lease requires the Academy to meet certain performance standards including graduation rates, re-enrollment rates, average daily attendance rates, college enrollment rates and minimum test scores.

Under the terms of the middle school lease, the Academy is responsible for all required maintenance for the facility. During each year of the lease, the Academy is required to expend a minimum of \$30,000 annual for fixtures, furnishings and equipment and \$15,000 for building systems maintenance and repair. The repair or replacement of fixtures, furnishings, equipments, and building systems shall become the property of the landlord upon purchase by the Academy. If the full \$45,000 is not expended, the shortfall shall be placed in an escrow account in the name of the landlord. In addition, the lease requires the Academy to meet certain performance standards including re-enrollment rates, average daily attendance rates, and minimum test scores.

Under the terms of the elementary school lease, the Academy is responsible for all required maintenance for the facility. Commencing in the second year of the lease, the Academy is required to expend a minimum of \$40,000 annual for fixtures, furnishings and equipment and \$15,000 for building systems maintenance and repair. The repair or replacement of fixtures, furnishings, equipments, and building systems shall become the property of the landlord upon purchase by the Academy. If the full \$40,000 is not expended, the shortfall shall be placed in an escrow account in the name of the landlord. In addition, the lease requires the Academy to meet certain performance standards including re-enrollment rates, average daily attendance rates, and minimum test scores.

Future minimum lease commitments as of June 30, 2008 are as follows:

Year Ended June 30,	
2009	\$45,001
2010	<u>45,001</u>
	<u>\$90,002</u>

UNIVERSITY PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
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(9) **LONG-TERM DEBT**

On June 30, 2008, the Academy's loan of \$10 million payable to NCB Development Corporation was assumed by New Urban Leasehold Holding 1, Inc. The loan was fully guaranteed by the Thompson Educational Foundation and the Thompson Foundation. Interest incurred on the loan and funded by the Thompson Educational Foundation for the fiscal year ended June 30, 2008 was \$407,039.

(10) **GUARANTIES**

The Academy has acted as the Guarantor for an \$186,000 loan between New Urban Learning and the Thompson Foundation. The outstanding balance on the loan as of June 30, 2008 is \$150,000.

(11) **SUBSEQUENT EVENTS**

The Academy entered into an Agreement with the Michigan Public Educational Facilities Authority for a State Aid Note in the amount of \$2.3 million. The Note is guaranteed by the Academy's State Aid payments. The note has an interest rate of 3.10% and is payable in ten monthly payment of \$237,209.

The Academy will be governed by a new board, Public School Academy of Detroit (PSAD). Under this board, the Academy's state funds will go to PSAD and PSAD will distribute the state funds to the Academy.