

UNIVERSITY PREPARATORY ACADEMY

FINANCIAL STATEMENTS

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011

UNIVERSITY PREPARATORY ACADEMY
FINANCIAL STATEMENTS
JUNE 30, 2011

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**GREGORY
TERRELL
& COMPANY**

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
The Public School Academies of Detroit

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, 2011, 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.

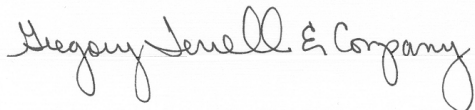
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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 9, 2011 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 dark ink on a light background.

GREGORY TERRELL & COMPANY
Certified Public Accountants

September 9, 2011

UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2011

This section of University Preparatory Academy's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2011. 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 non-major 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, 2011

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, 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 other funds to help it control and manage money for particular purposes (the School Service Fund 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 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.

UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2011

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, 2011 and 2010:

Table 1

	<u>Governmental Activities</u>	
	<u>June 30</u>	
	<u>2011</u>	<u>2010</u>
Assets		
Current and other assets	\$ 5,340,948	\$ 3,211,452
Capital assets	<u>96,321</u>	<u>-</u>
Total assets	\$ 5,437,269	\$ 3,211,452
Liabilities		
Current and other liabilities	4,414,682	2,393,393
Net Assets		
Investment in capital assets	\$ 96,321	\$ -
Designated	180,000	140,000
Unrestricted	<u>746,266</u>	<u>678,059</u>
Total net assets	\$ 1,022,587	\$ 818,059

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 \$746,266 and \$678,059 at June 30, 2011 and 2010, respectively. 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.

UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2011

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 increase in net assets for the fiscal years ending June 30, 2011 and 2010:

Table 2

	<u>Governmental Activities</u>	
	<u>Year Ending June 30</u>	
	<u>2011</u>	<u>2010</u>
Revenue		
Program revenue:		
Operating grants	\$ 4,640,744	\$ 4,932,139
Charges for service	47,154	116,167
General revenue:		
State foundation allowance	12,387,131	11,860,065
Miscellaneous revenue	<u>2,118</u>	<u>2,221</u>
Total revenue	17,077,147	16,910,592
Functions/Program Expenditures		
Instruction	9,114,467	9,749,704
Support services	6,378,445	5,748,655
Food services	674,093	626,512
Community services	10,865	12,844
Capital improvement	615,696	751,855
Unallocated depreciation	5,373	-
Interest	<u>73,680</u>	<u>172,186</u>
Total expenditures	<u>16,872,619</u>	<u>17,061,756</u>
Increase (Decrease) in Net Assets	204,528	(151,164)
Net Assets - Beginning of Year	<u>818,059</u>	<u>969,223</u>
Net Assets - End of Year	<u>\$ 1,022,587</u>	<u>\$ 818,059</u>

UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2011

As reported in the statement of activities, the cost of all *governmental* activities for the year ended June 30, 2011 and 2010 were \$16.9 million and \$17.1 million, respectively. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$ 4,640,744 in 2011 and \$4,932,139 in 2010). We paid for the remaining "public benefit" portion of our governmental activities with \$12,387,131 in 2011 and \$11,860,065 in 2010 in State foundation allowance, and with our other revenues, i.e., interest and contributions.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as unexpected changes in revenues and expenditures arise. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. 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.

Capital Assets

As of June 30, 2011, the Academy had purchased furniture in the amount of \$101,694. No debt was issued for the purchase of these items.

No major capital asset purchases are planned for the 2011-2012 fiscal year. We present more detailed information regarding our capital assets in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the Academy's 2011-2012 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 2011-2012 fiscal year is 10 percent and 90 percent of the February 2011 and October 2011 student counts, respectively. The Academy has budgeted its enrollment at 1725 students in the 2011-2012 school year, which is an increase of 25 students from the 2010-2011 school year.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, actual revenue received depends on the State's ability to collect revenues to fund its appropriation to its various school districts. The Governor has signed into law the State School Aid Act, which reduces the foundation allowance \$300 per pupil from the 2010-2011 fiscal year, to a total of \$7,110 per student.

Under Section 22f of the State School Aid Act, an additional \$100 per pupil is available to local school districts and public school academies that meet 4 out of 5 of the following best financial practices:

- Charge employees at least 10% of the health care premium
- Hold policy on medical benefit plans (if directly employed by district)
- Develop and implement a Service Consolidation Plan
- Obtain competitive bids on non-instructional services

UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2011

- Provide a dashboard or report card with specific indicators

The Academy anticipates that it will meet the minimum criteria required to receive the financial best practices funding, and has prepared its 2012 budget assuming a foundation allowance of \$7,210 per pupil. The Academy continues to be diligent in its spending and monitor its budget closely.

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, 610 Antoinette, Detroit, MI 48202.

UNIVERSITY PREPARATORY ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2011

			Governmental Activities
ASSETS			
Assets			
Cash and Cash Equivalents (Note 4)	\$	2,301,570	
Due from Other Governmental Units (Note 6)		2,778,419	
Receivables		186,798	
Prepaid Expenses		<u>74,161</u>	
Total Current Assets	\$	<u>5,340,948</u>	
 Noncurrent Assets			
Capital Assets	\$	101,694	
Less Accumulated Depreciation		<u>(5,373)</u>	
Total Noncurrent Assets	\$	<u>96,321</u>	
 Total Assets	 \$	 <u>5,437,269</u>	
 LIABILITIES AND NET ASSETS			
Liabilities			
Accounts Payable	\$	480,916	
Accrued Expenses		694,895	
Loans Payable		<u>3,238,871</u>	
Total Liabilities	\$	<u>4,414,682</u>	
 Net Assets			
Investment in Capital Assets		96,321	
Unrestricted		746,266	
Designated		<u>180,000</u>	
Total Net Assets	\$	<u>1,022,587</u>	
Total Liabilities and Net Assets	\$	<u>5,437,269</u>	

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

UNIVERSITY PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Activities</u> Net (expenses) Revenues and Changes in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants</u>	
Governmental Activities:				
Instruction	\$ 9,114,467	\$ -	\$ 3,218,000	\$ (5,896,467)
Support Services	6,378,445	4,165	822,988	(5,551,292)
Food Services	674,093	42,989	599,756	(31,348)
Community Services	10,865	-	-	(10,865)
Capital Improvement	615,696	-	-	(615,696)
Interest	73,680	-	-	(73,680)
Unallocated Depreciation	5,373	-	-	(5,373)
Total Governmental Activities:	<u>\$ 16,872,619</u>	<u>\$ 47,154</u>	<u>\$ 4,640,744</u>	<u>\$ (12,184,721)</u>
General Revenues:				
State of Michigan School Aid Unrestricted				\$ 12,387,131
Miscellaneous Revenue				<u>2,118</u>
Total General Revenues				<u>\$ 12,389,249</u>
Change in Net Assets				\$ 204,528
Net Assets, Beginning of Year				<u>818,059</u>
Net Assets, End of Year				<u>\$ 1,022,587</u>

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

UNIVERSITY PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

ASSETS	<u>General</u>	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 2,301,570	\$ -	\$ 2,301,570
Due from Other Governmental Units	2,675,931	102,488	2,778,419
Account Receivables	186,678	120	186,798
Due from Other Funds	-	56,708	56,708
Prepaid Expenses	<u>74,161</u>	<u>-</u>	<u>74,161</u>
Total Assets	<u>\$ 5,238,340</u>	<u>\$ 159,316</u>	<u>\$ 5,397,656</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 321,600	\$ 121,919	\$ 443,519
Accrued Expenses	694,895	-	694,895
Due to Student Groups	-	37,397	37,397
Due to Other Funds	56,708	-	56,708
Loans Payable	<u>3,238,871</u>	<u>-</u>	<u>3,238,871</u>
Total Liabilities	<u>\$ 4,312,074</u>	<u>\$ 159,316</u>	<u>\$ 4,471,390</u>
Fund Balances			
Non-spendable	\$ 74,161	\$ -	\$ 74,161
Unassigned	672,105	-	672,105
Assigned	<u>180,000</u>	<u>-</u>	<u>180,000</u>
Total Fund Balances	<u>\$ 926,266</u>	<u>\$ -</u>	<u>\$ 926,266</u>
Total Liabilities and Fund Balances	<u>\$ 5,238,340</u>	<u>\$ 159,316</u>	<u>\$ 5,397,656</u>
Total Governmental Fund Balances			\$ 926,266
Amounts reported for governmental activities in the Statement of Net Assets that are different			
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
The cost of capital assets is		101,694	
Accumulated depreciation is		<u>(5,373)</u>	<u>96,321</u>
Total Net Assets of Governmental Activities			<u>\$ 1,022,587</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, 2011

	General Fund	Other NonMajor Governmental Funds	Total Governmental Funds
REVENUES:			
Local Sources	\$ 976,861	\$ 42,989	\$ 1,019,850
State Sources	13,069,561	19,455	13,089,016
Federal Sources	<u>2,387,980</u>	<u>580,301</u>	<u>2,968,281</u>
Total Revenues	<u>\$ 16,434,402</u>	<u>\$ 642,745</u>	<u>\$ 17,077,147</u>
EXPENDITURES:			
Instruction:			
Basic Programs	\$ 8,718,887	\$ -	\$ 8,718,887
Added Needs	<u>395,580</u>	<u>-</u>	<u>395,580</u>
Total Instruction	<u>\$ 9,114,467</u>	<u>\$ -</u>	<u>\$ 9,114,467</u>
Support Services:			
Pupil	\$ 179,931	\$ -	\$ 179,931
Instructional Support	263,110	-	263,110
General Administration	769,944	-	769,944
School Administration	1,251,166	-	1,251,166
Business Service	2,014,642	-	2,014,642
Operations and Maintenance	1,404,498	-	1,404,498
Pupil Transportation	92,560	-	92,560
Central Support Services	391,566	-	391,566
Other Support Services	<u>112,722</u>	<u>-</u>	<u>112,722</u>
Total Support Services	<u>\$ 6,480,139</u>	<u>\$ -</u>	<u>\$ 6,480,139</u>
Debt Services			
Interest	<u>\$ 73,680</u>	<u>\$ -</u>	<u>\$ 73,680</u>
Community Services	<u>\$ 10,865</u>	<u>\$ -</u>	<u>\$ 10,865</u>
Food Services	<u>\$ -</u>	<u>\$ 674,093</u>	<u>\$ 674,093</u>
Capital Improvement	<u>\$ 615,696</u>	<u>\$ -</u>	<u>\$ 615,696</u>
Total Expenditures	<u>\$ 16,294,847</u>	<u>\$ 674,093</u>	<u>\$ 16,968,940</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 139,555</u>	<u>\$ (31,348)</u>	<u>\$ 108,207</u>
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	<u>\$ -</u>	<u>\$ 31,348</u>	<u>\$ 31,348</u>
Operating Transfers Out	<u>\$ (31,348)</u>	<u>\$ -</u>	<u>\$ (31,348)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 108,207</u>	<u>\$ -</u>	<u>\$ 108,207</u>
Beginning of Year	<u>818,059</u>	<u>-</u>	<u>818,059</u>
End of Year	<u>\$ 926,266</u>	<u>\$ -</u>	<u>\$ 926,266</u>

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

UNIVERSITY PREPARATORY ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net Change in Fund Balances - Governmental Funds \$ 108,207

Amounts reported for governmental activities in the Statement of Activities
that are different because:

Governmental funds report capital outlays as expenditures in the statement of activities.

These costs are allocated over their estimated useful life as depreciation.

Capital Assets	101,694
Depreciation Expense	<u>(5,373)</u>

Change in Net Assets - Governmental Activities \$ 204,528

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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Under/ (Over) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local Sources	\$ 1,101,910	\$ 1,002,538	\$ 976,861	\$ 25,677
State Sources	12,886,281	13,059,086	13,069,561	(10,475)
Federal Sources	<u>1,914,201</u>	<u>2,635,919</u>	<u>2,387,980</u>	<u>247,939</u>
Total Revenues	<u>\$ 15,902,392</u>	<u>\$ 16,697,543</u>	<u>\$ 16,434,402</u>	<u>\$ 263,141</u>
EXPENDITURES:				
Instruction:				
Basic Programs	\$ 8,982,680	\$ 8,965,618	\$ 8,718,887	\$ 246,731
Added Needs	<u>559,696</u>	<u>396,348</u>	<u>395,580</u>	<u>768</u>
Total Instruction	<u>\$ 9,542,376</u>	<u>\$ 9,361,966</u>	<u>\$ 9,114,467</u>	<u>\$ 247,499</u>
Support Services:				
Pupil	\$ 36,000	\$ 196,069	\$ 179,931	\$ 16,138
Instruction Support	96,022	318,611	263,110	55,501
General Administration	709,660	836,014	769,944	66,070
School Administration	1,355,814	1,305,978	1,251,166	54,812
Business Service	1,718,401	2,027,122	2,014,642	12,480
Operations and Maintenance	1,218,085	1,408,757	1,404,498	4,259
Pupil Transportation	83,000	110,059	92,560	17,499
Central Support Services	275,055	452,033	391,566	60,467
Other Support Services	<u>152,000</u>	<u>113,500</u>	<u>112,722</u>	<u>778</u>
Total Support Services	<u>\$ 5,644,037</u>	<u>\$ 6,768,143</u>	<u>\$ 6,480,139</u>	<u>\$ 288,004</u>
Debt Service				
Interest	<u>\$ 183,000</u>	<u>\$ 75,000</u>	<u>\$ 73,680</u>	<u>\$ 1,320</u>
Community Services	<u>\$ 16,341</u>	<u>\$ 16,341</u>	<u>\$ 10,865</u>	<u>\$ 5,476</u>
Capital Improvement	<u>\$ 683,330</u>	<u>\$ 616,000</u>	<u>\$ 615,696</u>	<u>\$ 304</u>
Total Expenditures	<u>\$ 16,069,084</u>	<u>\$ 16,837,450</u>	<u>\$ 16,294,847</u>	<u>\$ 542,603</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (166,692)</u>	<u>\$ (139,907)</u>	<u>\$ 139,555</u>	<u>\$ (279,462)</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				\$ -
Operating Transfers Out	<u>-</u>	<u>(35,545)</u>	<u>(31,348)</u>	<u>(4,197)</u>
NET CHANGE IN FUND BALANCES	<u>\$ (166,692)</u>	<u>\$ (175,452)</u>	<u>\$ 108,207</u>	<u>\$ (283,659)</u>
Beginning of Year	<u>668,808</u>	<u>818,059</u>	<u>818,059</u>	<u>-</u>
End of Year	<u>\$ 502,116</u>	<u>\$ 642,607</u>	<u>\$ 926,266</u>	<u>\$ (283,659)</u>

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

UNIVERSITY PREPARATORY ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
SCHOOL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Under/ (Over) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local Sources	\$ 76,000	\$ 47,000	\$ 42,989	\$ 4,011
State Sources	-	19,455	19,455	-
Federal Sources	<u>402,000</u>	<u>560,000</u>	<u>580,301</u>	<u>(20,301)</u>
Total Revenues	<u>\$ 478,000</u>	<u>\$ 626,455</u>	<u>\$ 642,745</u>	<u>\$ (16,290)</u>
EXPENDITURES:				
Food Services	<u>\$ 478,000</u>	<u>\$ 662,000</u>	<u>\$ 674,093</u>	<u>\$ (12,093)</u>
Total Expenditures	<u>\$ 478,000</u>	<u>\$ 662,000</u>	<u>\$ 674,093</u>	<u>\$ (12,093)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ -</u>	<u>\$ (35,545)</u>	<u>\$ (31,348)</u>	<u>\$ (4,197)</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	\$ -	\$ 35,545	\$ 31,348	\$ 4,197
Operating Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES				
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

UNIVERSITY PREPARATORY ACADEMY
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2011

	<u>Student Activities- Agency Fund</u>
Assets - Due from General Fund	\$ <u>37,397</u>
Liabilities - Due to Student Groups	\$ <u>37,397</u>

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

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

(1) **ORGANIZATION**

University Preparatory Academy (“the Academy”) is an urban public school academy under The Public School Academies of Detroit (“PSAD”) pursuant to Part 6C of the Michigan Revised School Code of 1976, as amended. The Michigan Department of Education has issued a school district number to the Academy. PSAD filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation act of 1982, as amended, in May 2007. The Academy began operations in July 2000.

On July 1, 2008, PSAD entered into a ten-year contract with Grand Valley State University. The contract requires PSAD 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 PSAD and is responsible for overseeing PSAD’s compliance with the contract and all applicable laws. PSAD on behalf of the Academy pays Grand Valley State University three percent (3%) of its state aid as administrative fees. The total administrative fees paid for the year ended June 30, 2011 were \$373,788.

(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, 2011
(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 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 fund:

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 *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 are described below:

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(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.

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 adopted.

For the year ended June 30, 2011 expenditures exceeded appropriations as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Food Service	\$ 662,000	\$ 674,093	\$ 12,093

(4) **CASH AND CASH EQUIVALENTS**

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

Cash and cash equivalents	\$2,301,570
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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.

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

(4) **CASH AND CASH EQUIVALENTS** (cont.)

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 \$2,368,274. Of this amount \$250,000 was covered by federal depository insurance and \$2,118,274 was uninsured and uncollateralized.

(5) **CAPITAL ASSETS**

A summary of capital assets is presented below:

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Furniture	\$ -	\$ 101,694	\$ -	\$ 101,694
Less accumulated depreciation	<u>-</u>	<u>(5,373)</u>	<u>-</u>	<u>(5,373)</u>
Net Capital Assets	<u>\$ -</u>	<u>\$ 96,321</u>	<u>\$ -</u>	<u>\$ 96,321</u>

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

Due from other governmental units as of June 30, 2011 for the Academy's general fund and school service fund were as follows:

State of Michigan - State Aid	\$ 2,385,523
State of Michigan - Federal Grants	375,536
Wayne RESA	<u>17,360</u>
Total	<u>\$ 2,778,419</u>

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

(7) **MANAGEMENT AGREEMENT**

For the year ended June 30, 2011, the Academy utilized a management company, New Urban Learning (“NUL”), a not-for-profit corporation. NUL provides all Academy personnel, as well as all Academy management and curriculum services. NUL is reimbursed for its direct costs as approved in the Academy’s budget. The management fee was set at 2.25% of the Academy’s state aid receipts and amounted to \$282,855.

For the year ended June 30, 2011, the Academy also utilized New Urban Learning for facilities management, food services, compliance, human resources, bookkeeping, and financial management. The fees for the year ended June 30, 2011 were \$955,895.

(8) **SHORT-TERM DEBT**

PSAD entered into an Agreement with the Michigan Finance Authority on behalf of the Academy for a State Aid Note in the amount of \$3.25 million. The Note is guaranteed by the Academy’s State Aid payments. The note has an interest rate of 3.04% and is payable in seven monthly principal and interest payments through July 2011. The balance of the note as of June 30, 2011 was \$1,038,871.

PSAD entered into an Agreement with the Michigan Finance Authority on behalf of the Academy for a State Aid Note in the amount of \$2.2 million. The Note is guaranteed by the Academy’s State Aid payments. The note has an interest rate of 2.48% and is payable in one principal and interest payment due August 2011. The balance of the note as of June 30, 2011 was \$2,200,000.

(10) **COMMITMENTS**

The Academy subleases its buildings from New Urban Learning, which is obligated under four operating leases for the two elementary, middle and high school facilities. The leases require annual base rents of \$1 each, expiring June 30, 2013.

Under the terms of the various lease agreements, the Academy is responsible for all required maintenance of the facility. At the start of each successive fiscal year for the five-year lease period, the escrow account must be increased by \$40,000. The escrow funds shall be available for major capital repairs at any of the Academy’s buildings. 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.

Future minimum lease commitments as of June 30, 2011 are as follows:

Year Ended June 30,	
2012	\$ 40,001
2013	<u>40,001</u>
	<u>\$ 80,002</u>

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011
(Continued)

(9) **SUBSEQUENT EVENT**

On August 9, 2011, PSAD entered into an Agreement on behalf of the Academy with the Michigan Finance Authority for a State Aid Note in the amount of \$3.475 million. The Note is guaranteed by the Academy's State Aid payments and bears interest at a rate of 2.90%. The note requires eleven monthly principal and interest payments as follows:

<u>Date</u>	<u>Amount</u>
10/20/2011	\$ 232,617
11/21/2011	232,030
12/20/2011	231,500
1/20/2012	230,937
2/21/2012	230,358
3/20/2012	229,865
4/20/2012	229,311
5/21/2012	331,539
6/20/2012	510,140
7/20/2012	508,959
8/20/2012	<u>507,744</u>
Total	\$ 3,475,000
Interest	<u>66,827</u>
Total	<u>\$ 3,541,827</u>

Subsequent events have been evaluated through September 9, 2011, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.