

UNIVERSITY PREPARATORY ACADEMY

FINANCIAL STATEMENTS

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

JUNE 30, 2016

UNIVERSITY PREARATORY ACADEMY
FINANCIAL STATEMENTS
JUNE 30, 2016

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**GREGORY
TERRELL
& COMPANY**

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Public School Academies of Detroit

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of University Preparatory Academy as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's 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 auditor's 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, each major fund, and the aggregate remaining fund information of University Preparatory Academy 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.

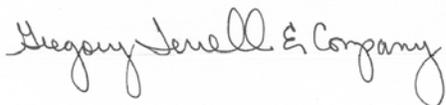
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–7 and 13–15, respectively, 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 sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2016 on our consideration of the Academy'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 Academy's internal control over financial reporting and compliance.



GREGORY TERRELL & COMPANY
Certified Public Accountants

October 25, 2016

UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016

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, 2016. 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 position, 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, 2016

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 position 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 position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net position - 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 position 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, 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 Food 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 position and the statement of activities) and governmental funds in the following reconciliation.

**UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016**

The Academy as a Whole

Recall that the statement of net position provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net position as of June 30, 2016 and 2015:

Table 1

	Governmental Activities June 30	
	2016	2015
Assets		
Current and Other Assets	\$ 5,278,193	\$ 5,366,725
Capital Assets	852,890	657,259
Total Assets	\$ 6,131,083	\$ 6,023,984
Liabilities		
Current and Other Liabilities	\$ 1,967,709	\$ 2,479,914
Net Position		
Investment in Capital Assets	\$ 852,890	\$ 657,259
Designated	260,000	260,000
Unrestricted	3,050,484	2,626,811
Total Net Position	\$ 4,163,374	\$ 3,544,070

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the Academy's governmental activities is discussed below. The Academy's unrestricted net position was \$3,050,484 and \$2,626,811 at June 30, 2016 and 2015, respectively. The unrestricted net position 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 position from year to year.

UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016

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 position for the fiscal years ending June 30, 2016 and 2015:

Table 2

	Governmental Activities	
	Year Ending June 30	
	2016	2015
Revenue		
Program Revenue:		
Operating Grants	\$ 3,729,525	\$ 3,012,866
Charges for Services	46,212	38,260
General revenue:		
State Foundation Allowance	13,553,088	13,264,821
Miscellaneous Revenue	55,236	33,020
Total Revenue	<u>\$ 17,384,061</u>	<u>\$ 16,348,967</u>
Functions/Program Expenditures		
Instruction	\$ 8,567,096	\$ 7,917,015
Support Services	6,846,462	6,505,381
Food Services	725,037	694,408
Community Services	140,752	106,285
Capital Improvements	227,157	298,838
Interest	53,341	77,395
Unallocated Depreciation	204,912	110,419
Total Expenditures	<u>\$ 16,764,757</u>	<u>\$ 15,709,741</u>
Increase in Net Position	<u>\$ 619,304</u>	<u>\$ 639,226</u>

As reported in the statement of activities, the cost of all *governmental* activities for the year ended June 30, 2016 and 2015 were \$16.8 million and \$15.7 million, respectively. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions of \$3,729,525 in 2016 and \$3,012,866 in 2015. We paid for the remaining "public benefit" portion of our governmental activities with \$13,553,088 in 2016 and \$13,264,821 in 2015 in State foundation allowance, and with our other revenues, i.e., interest and contributions.

UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016

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, 2016, the Academy had invested \$852,890 in furniture, leasehold improvements, and computer hardware. This represents an increase of \$195,631 from last year. No debt was issued for these additions. 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 2016-2017 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 2016-2017 fiscal year is 10 percent and 90 percent of the February 2016 and October 2016 student counts, respectively. The Academy has budgeted its enrollment at 1,849 students for the 2016-2017 school year end, which is the same enrollment from the 2015-2016 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 Academy has prepared its 2017 budget assuming a foundation allowance of \$7,511 per pupil. The Academy continues to be diligent in its spending and monitors its budget closely.

Contacting the Academy's Management

This financial report is intended to provide our taxpayers, parents, and donors with a general overview of the Academy's finances and to show the Academy'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 POSITION
JUNE 30, 2016

	Governmental Activities
Assets	
Cash and Cash Equivalents (Note 4)	\$ 2,163,924
Due from Other Governmental Units (Note 6)	3,064,831
Accounts Receivable	12,040
Prepaid Expenses	37,398
Capital Assets, net (Note 5)	852,890
Total Assets	\$ 6,131,083
Liabilities	
Accounts Payable	\$ 275,644
Accrued Expenses	691,095
Due to Student Groups	137,902
Unearned Revenue (Note 10)	161,068
Contingent Liabilities (Note 11)	102,000
Loan Payable (Note 8)	600,000
Total Liabilities	\$ 1,967,709
Net Position	
Invested in Capital Assets	\$ 852,890
Assigned	260,000
Unassigned	3,050,484
Total Net Position	\$ 4,163,374

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

UNIVERSITY PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
Governmental Activities:				
Instruction	\$ 8,567,096	\$ -	\$ 1,569,616	\$ (6,997,480)
Support Services	6,846,462	-	1,548,547	(5,297,915)
Food Services	725,037	46,212	608,516	(70,309)
Community Services	140,752	-	2,846	(137,906)
Capital Improvements	227,157			(227,157)
Interest	53,341	-	-	(53,341)
Unallocated Depreciation	204,912	-	-	(204,912)
Total Governmental Activities:	<u>\$ 16,764,757</u>	<u>\$ 46,212</u>	<u>\$ 3,729,525</u>	<u>\$ (12,989,020)</u>
General Revenues:				
State of Michigan School Aid Unrestricted				\$ 13,553,088
Miscellaneous Revenue				55,236
Total General Revenues				<u>\$ 13,608,324</u>
Change in Net Position				\$ 619,304
Net Position, Beginning of Year				<u>3,544,070</u>
Net Position, End of Year				<u>\$ 4,163,374</u>

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

UNIVERSITY PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Assets			
Cash and Cash Equivalents (Note 4)	\$ 2,163,924	\$ -	\$ 2,163,924
Due from Other Governmental Units (Note 6)	2,941,088	123,743	3,064,831
Accounts Receivable	12,040	-	12,040
Prepaid Expenditures	37,398	-	37,398
Due From Other Funds	92,049	-	92,049
Total Assets	<u>\$ 5,246,499</u>	<u>\$ 123,743</u>	<u>\$ 5,370,242</u>
 LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 243,950	\$ 31,694	\$ 275,644
Accrued Expenses	691,095	-	691,095
Due to Student Groups	137,902	-	137,902
Unearned Revenue (Note 10)	161,068	-	161,068
Contingent Liabilities (Note 11)	102,000	-	102,000
Loan Payable (Note 8)	600,000	-	600,000
Due to Other Funds	-	92,049	92,049
Total Liabilities	<u>\$ 1,936,015</u>	<u>\$ 123,743</u>	<u>\$ 2,059,758</u>
 Deferred Inflow of Resources - Unavailable Revenue (Note 10)	 <u>\$ 2,079</u>	 <u>\$ -</u>	 <u>\$ 2,079</u>
 Fund Balances			
Non-spendable	\$ 37,398	\$ -	\$ 37,398
Restricted	260,000	-	260,000
Unassigned	3,011,007	-	3,011,007
Total Fund Balances	<u>\$ 3,308,405</u>	<u>\$ -</u>	<u>\$ 3,308,405</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 5,246,499</u>	<u>\$ 123,743</u>	<u>\$ 5,370,242</u>
 Total Governmental Fund Balances			 \$ 3,308,405
Amounts reported for Governmental Activities in the Statement of Net Position 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		1,257,981	
Accumulated Depreciation is		<u>(405,091)</u>	852,890
Receivables are not available to pay current period expenditures and are therefore deferred in the Governmental Funds			
			<u>2,079</u>
Total Net Position of Governmental Activities			<u>\$ 4,163,374</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, 2016

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Local Sources	\$ 195,179	\$ 46,212	\$ 241,391
State Sources	14,635,460	27,604	14,663,064
Federal Sources	1,914,856	580,912	2,495,768
Total Revenues	<u>\$ 16,745,495</u>	<u>\$ 654,728</u>	<u>\$ 17,400,223</u>
EXPENDITURES:			
Instruction:			
Basic Programs	\$ 7,467,440	\$ -	\$ 7,467,440
Added Needs	1,111,821	-	1,111,821
Total Instruction	<u>\$ 8,579,261</u>	<u>\$ -</u>	<u>\$ 8,579,261</u>
Support Services:			
Instructional Support	\$ 1,101,123	\$ -	\$ 1,101,123
Pupil Support	922,333	-	922,333
General Administration	524,632	-	524,632
School Administration	1,045,968	-	1,045,968
Business Service	1,108,508	-	1,108,508
Operations and Maintenance	1,447,573	-	1,447,573
Pupil Transportation	41,710	-	41,710
Central Support Services	895,589	-	895,589
Other Support Services	147,961	-	147,961
Total Support Services	<u>\$ 7,235,397</u>	<u>\$ -</u>	<u>\$ 7,235,397</u>
Debt Service:			
Interest	\$ 53,341	\$ -	\$ 53,341
Community Services	\$ 140,752	\$ -	\$ 140,752
Food Services	\$ -	\$ 725,038	\$ 725,038
Capital Improvements	\$ 227,157	\$ -	\$ 227,157
Total Expenditures	<u>\$ 16,235,908</u>	<u>\$ 725,038</u>	<u>\$ 16,960,946</u>
Excess (Deficiency) of Revenues over Expenditures	\$ 509,587	\$ (70,310)	\$ 439,277
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	-	70,310	70,310
Operating Transfers Out	(70,310)	-	(70,310)
NET CHANGE IN FUND BALANCES	<u>\$ 439,277</u>	<u>\$ -</u>	<u>\$ 439,277</u>
Beginning of Year	2,869,128	-	2,869,128
End of Year	<u>\$ 3,308,405</u>	<u>\$ -</u>	<u>\$ 3,308,405</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, 2016

Net Change in Fund Balances - Governmental Funds \$ 439,277

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlays as expenditures; however, in the Statement of Activities, these costs are allocated over their estimated useful life as depreciation:

Capitalized Capital Outlay	400,543
Depreciation Expense	(204,912)

Revenue is recorded in the statement of activities when earned; it is not reported in the governmental funds until collected or collectible within 60 days of year end.

Prior Year Revenue	(17,683)
Current Year Revenue	2,079
	\$ 619,304

Change in Net Position - Governmental Activities

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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Under/ (Over) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local Sources	\$ 104,980	\$ 128,157	\$ 195,179	\$ (67,022)
State Sources	14,438,854	14,734,454	14,635,460	98,994
Federal Sources	1,652,241	1,994,353	1,914,856	79,497
Total Revenues	<u>\$ 16,196,075</u>	<u>\$ 16,856,964</u>	<u>\$ 16,745,495</u>	<u>\$ 111,469</u>
EXPENDITURES:				
Instruction:				
Basic Programs	\$ 7,709,244	\$ 7,585,216	\$ 7,467,440	\$ 117,776
Added Needs	1,141,467	1,152,816	1,111,821	40,995
Total Instruction	<u>\$ 8,850,711</u>	<u>\$ 8,738,032</u>	<u>\$ 8,579,261</u>	<u>\$ 158,771</u>
Support Services:				
Instructional Support	\$ 926,260	\$ 1,164,738	\$ 1,101,123	\$ 63,615
Pupil Support	933,661	952,589	922,333	30,256
General Administration	547,678	496,401	524,632	(28,231)
School Administration	1,060,830	1,052,180	1,045,968	6,212
Business Service	1,172,943	1,114,940	1,108,508	6,432
Operations and Maintenance	1,389,908	1,492,295	1,447,573	44,722
Pupil Transportation	51,600	46,225	41,710	4,515
Central Support Services	645,302	935,629	895,589	40,040
Other Support Services	139,115	159,808	147,961	11,847
Total Support Services	<u>\$ 6,867,297</u>	<u>\$ 7,414,805</u>	<u>\$ 7,235,397</u>	<u>\$ 179,408</u>
Debt Service				
Interest	\$ 80,000	\$ 56,000	\$ 53,341	\$ 2,659
Community Services	<u>\$ 101,471</u>	<u>\$ 160,312</u>	<u>\$ 140,752</u>	<u>\$ 19,560</u>
Capital Improvements	<u>\$ 283,000</u>	<u>\$ 257,776</u>	<u>\$ 227,157</u>	<u>\$ 30,619</u>
Total Expenditures	<u>\$ 16,182,479</u>	<u>\$ 16,626,925</u>	<u>\$ 16,235,908</u>	<u>\$ 391,017</u>
Excess (Deficiency) of Revenues over Expenditures	\$ 13,596	\$ 230,039	\$ 509,587	\$ (279,548)
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(66,775)	(94,058)	(70,310)	(23,748)
NET CHANGE IN FUND BALANCES	<u>\$ (53,179)</u>	<u>\$ 135,981</u>	<u>\$ 439,277</u>	<u>\$ (303,296)</u>
Beginning of Year	2,869,128	2,869,128	2,869,128	-
End of Year	<u>\$ 2,815,949</u>	<u>\$ 3,005,109</u>	<u>\$ 3,308,405</u>	<u>\$ (303,296)</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, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Under/(Over) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local Sources	\$ 34,000	\$ 45,800	\$ 46,212	\$ (412)
State Sources	15,000	27,602	27,604	(2)
Federal Sources	620,000	573,500	580,912	(7,412)
Total Revenues	<u>\$ 669,000</u>	<u>\$ 646,902</u>	<u>\$ 654,728</u>	<u>\$ (7,826)</u>
EXPENDITURES:				
Food Services	\$ 735,775	\$ 740,960	\$ 725,038	\$ 15,922
Total Expenditures	<u>\$ 735,775</u>	<u>\$ 740,960</u>	<u>\$ 725,038</u>	<u>\$ 15,922</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (66,775)</u>	<u>\$ (94,058)</u>	<u>\$ (70,310)</u>	<u>\$ (23,748)</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	\$ 66,775	\$ 94,058	\$ 70,310	\$ 23,748
Operating Transfers Out	-	-	-	-
NET CHANGE IN FUND BALANCES				
Beginning of Year	-	-	-	-
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, 2016

	<u>Student Activities - Agency Fund</u>
Assets - Due from General Fund	<u>\$ 137,902</u>
Liabilities - Due to Student Groups	<u>\$ 137,902</u>

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

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(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.

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

The academy-wide financial statements (i.e., the statement of net position 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 expense of a given function or segment is 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.

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

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

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 as follows:

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(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.

Deferred Outflow and Inflow of Resources

Deferred Outflow of Resources is defined as the consumption or usage of net position applicable to a future reporting period. These types of resources are similar to assets and have a positive effect on the Statement of Net Position. Deferred Inflow of Resources is defined as the acquisition of net position applicable to a future reporting period. These types of resources are similar to liabilities and have a negative effect on the Statement of Net Position.

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 end June 30, 2016, expenditures exceeded appropriations as follows:

<u>General Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Administration	\$ 496,401	\$ 524,632	\$ (28,231)

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(Continued)

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

Capital Assets

Capital assets are defined by the Academy as assets with an individual cost of more than \$5,000 and estimated useful lives in excess of one year. Such assets are recorded at historical cost.

The cost of normal maintenance and repairs that do not add to the value of the capital assets or materially extend their lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Furniture and other equipment	5 – 10 years
Leasehold improvements	15 years

(4) **CASH AND CASH EQUIVALENTS**

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

Cash and cash equivalents	<u>\$2,163,924</u>
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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.

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 \$2,388,921. Of this amount \$250,000 was covered by federal depository insurance and \$2,088,921 was uninsured and uncollateralized.

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(5) **CAPITAL ASSETS**

A summary of capital assets is presented below:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Furniture, Leasehold Improvements, and Computer Hardware	\$ 857,438	\$ 400,543	\$ -	\$ 1,257,981
Less: Accumulated Depreciation	<u>(200,179)</u>	<u>(204,912)</u>	<u>-</u>	<u>(405,091)</u>
Net Capital Assets	<u>\$ 657,259</u>	<u>\$ 195,631</u>	<u>\$ -</u>	<u>\$ 852,890</u>

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

Due from other governmental units as of June 30, 2016 for the Academy's general fund and school service fund were as follows:

State of Michigan - State Aid	\$ 2,691,256
State of Michigan - Federal	342,332
Wayne RESA	<u>31,243</u>
Total	<u>\$ 3,064,831</u>

(7) **MANAGEMENT AGREEMENT**

For the year ended June 30, 2016, the Academy utilized a management company, Detroit 90/90, a not-for-profit corporation to provide personnel, management services, back office operations, and curriculum services. Detroit 90/90 is reimbursed for its direct costs as approved in the Academy's budget. The management fee is set at 6.5% of the Academy's state aid receipts. The management agreement provides for a minimum management fee of \$850,000 and a maximum management fee of \$1,700,000. The management fee for the year ended June 30, 2016 was \$771,098.

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(8) **LOAN PAYABLE**

On August 21, 2015, PSAD entered into an Agreement with the Comerica Bank on behalf of the Academy for a Promissory Note in the amount of \$1.8 million. The Note is guaranteed by the Academy's State Aid payments. The note has a daily adjusting LIBOR rate plus 3.00 percent. The first principal payment of \$400,000 was due April 29, 2016 and the remaining payments are due monthly. The Note matures August 26, 2016 and the balance of the note as of June 30, 2016 was \$600,000. Total interest expense was \$53,341 at June 30, 2016.

(9) **COMMITMENTS AND ASSIGNED FUND BALANCE**

The Academy subleases its buildings from PSAD, 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. The two elementary school leases expire June 30, 2020 and 2018; the middle school lease expires June 30, 2018; and the high school lease expires June 30, 2017.

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. The Academy has met its escrow requirement of \$260,000.

(10) **UNEARNED/UNAVAILABLE REVENUE**

At June 30, 2016, the Academy received governmental funds prior to meeting all eligibility requirements. Governmental funds are reported as unavailable revenue when receivables are considered to be unavailable to liquidate liabilities of the current period. Governmental funds are unearned when resources have been received but not yet earned.

	Deferred Inflow - Unavailable	Unearned
Grants and Categorical Aid Payments received prior to meeting all eligibility requirements	\$ 2,079	\$ 161,068

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(11) **CONTINGENT LIABILITIES**

At June 30, 2016, the Academy has recorded a contingent liability in the amount of \$102,000 as a result of the middle school not having a water meter located at its building and not having been charged for water and sewerage.

(12) **SUBSEQUENT EVENTS**

On August 26, 2016, PSAD entered into an Agreement on behalf of the Academy with Comerica Bank for a note in the amount of \$1.8 million. The note is guaranteed by the Academy's State Aid payments at a variable interest rate (daily adjusting LIBOR rate plus 3 percent). The note requires total interest payments of \$50,814 and five monthly principal payments as follows:

Date	Amount
4/28/2017	\$ 500,000
5/26/2017	400,000
6/30/2017	400,000
7/28/2017	300,000
8/25/2017	200,000
Total Principal	\$ 1,800,000
Interest	50,814
Total Principal and Interest	\$ 1,850,814

Subsequent events have been evaluated through October 25, 2016, 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.