

UNIVERSITY PREPARATORY ACADEMY
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT
JUNE 30, 2018

UNIVERSITY PREARATORY ACADEMY
FINANCIAL STATEMENTS
JUNE 30, 2018

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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, 2018, 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, 2018, 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.

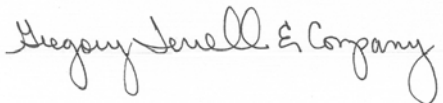
Other Matters

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 30, 2018 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
Detroit, Michigan

October 30, 2018

UNIVERSITY PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2018

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, 2018. 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, 2018

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, 2018**

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, 2018 and 2017:

Table 1

	Governmental Activities	
	June 30	
	2018	2017
Assets		
Current and Other Assets	\$ 5,434,748	\$ 4,941,098
Capital Assets	862,843	965,019
Total Assets	<u>\$ 6,297,591</u>	<u>\$ 5,906,117</u>
Liabilities		
Current and Other Liabilities	<u>\$ 2,033,547</u>	<u>\$ 1,729,242</u>
Net Position		
Investment in Capital Assets	\$ 862,843	\$ 965,019
Designated	260,000	260,000
Unrestricted	3,141,201	2,951,856
Total Net Position	<u>\$ 4,264,044</u>	<u>\$ 4,176,875</u>

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 \$3,141,201 and \$2,951,856 at June 30, 2018 and 2017, 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, 2018**

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, 2018 and 2017:

Table 2

	Governmental Activities	
	Year Ending June 30	
	2018	2017
Revenue		
Program Revenue:		
Operating Grants	\$ 3,804,881	\$ 4,004,203
Charges for Services	40,506	49,338
General revenue:		
State Foundation Allowance	14,651,031	13,499,642
Miscellaneous Revenue	58,307	143,176
Total Revenue	<u>\$ 18,554,725</u>	<u>\$ 17,696,359</u>
Functions/Program Expenditures		
Instruction	\$ 9,101,006	\$ 8,965,212
Support Services	7,887,021	7,296,902
Food Services	818,564	754,267
Community Services	45,329	65,282
Capital Improvements	217,606	273,596
Interest	74,195	54,899
Unallocated Depreciation	323,835	272,700
Total Expenditures	<u>\$ 18,467,556</u>	<u>\$ 17,682,858</u>
Increase (Decrease) in Net Position	<u>\$ 87,169</u>	<u>\$ 13,501</u>

As reported in the statement of activities, the cost of all *governmental* activities for the year ended June 30, 2018 and 2017 were \$18,467,556 and \$17,682,858, respectively. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions of \$3,804,881 in 2018 and \$4,004,203 in 2017. We paid for the remaining "public benefit" portion of our governmental activities with \$14,651,031 in 2018 and \$13,499,642 in 2017 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, 2018

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, 2018, the Academy had invested \$862,843 in furniture, leasehold improvements, and computer hardware. This represents a decrease of \$102,176 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 2018-2019 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 2018-2019 fiscal year is 10 percent and 90 percent of the February 2018 and October 2018 student counts, respectively. The Academy has budgeted its enrollment at 1,945 students for the 2018-2019 school year end, which is an increase of 40 of students from the 2017-2018 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 2019 budget assuming a foundation allowance of \$7,871 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, 2018

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 2,082,195
Due from Other Governmental Units	3,243,138
Accounts Receivable	79,324
Prepaid Expenses	30,091
Capital Assets, net	862,843
Total Assets	\$ 6,297,591
Liabilities	
Accounts Payable	\$ 443,827
Accrued Expenses	698,342
Due to Student Groups	116,808
Unearned Revenue	255,409
Contingent Liabilities	19,161
Loan Payable	500,000
Total Liabilities	\$ 2,033,547
Net Position	
Invested in Capital Assets	\$ 862,843
Assigned	260,000
Unassigned	3,141,201
Total Net Position	\$ 4,264,044

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

UNIVERSITY PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Governmental Activities Net (Expenses) Revenues and Changes in Net Position
		<u>Charges for Services</u>	<u>Operating Grants</u>	
Governmental Activities:				
Instruction	9,101,006	\$ -	\$ 1,729,406	\$ (7,371,600)
Support Services	7,887,021	-	1,359,889	(6,527,132)
Food Services	818,564	40,506	694,853	(83,205)
Community Services	45,329	-	20,733	(24,596)
Capital Improvements	217,606	-	-	(217,606)
Interest	74,195	-	-	(74,195)
Unallocated Depreciation	323,835	-	-	(323,835)
Total Governmental Activities:	<u>\$ 18,467,556</u>	<u>\$ 40,506</u>	<u>\$ 3,804,881</u>	<u>\$ (14,622,169)</u>
General Revenues:				
State of Michigan School Aid Unrestricted				\$ 14,651,031
Miscellaneous Revenue				<u>58,307</u>
Total General Revenues				<u>\$ 14,709,338</u>
Change in Net Position				\$ 87,169
Net Position, Beginning of Year				<u>4,176,875</u>
Net Position, End of Year				<u>\$ 4,264,044</u>

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

UNIVERSITY PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Assets			
Cash and Cash Equivalents	\$ 2,082,195	\$ -	\$ 2,082,195
Due from Other Governmental Units	3,125,927	117,211	3,243,138
Accounts Receivable	79,324	-	79,324
Prepaid Expenditures	30,091	-	30,091
Due From Other Funds	117,211	-	117,211
Total Assets	\$ 5,434,748	\$ 117,211	\$ 5,551,959
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	443,827	\$ -	\$ 443,827
Accrued Expenses	698,342	-	698,342
Due to Student Groups	116,808	-	116,808
Unearned Revenue	255,409	-	255,409
Contingent Liabilities	19,161	-	19,161
Loan Payable	500,000	-	500,000
Due to Other Funds	-	117,211	117,211
Total Liabilities	\$ 2,033,547	\$ 117,211	\$ 2,150,758
Fund Balances			
Non-spendable	\$ 30,091	\$ -	\$ 30,091
Restricted	260,000	-	260,000
Unassigned	3,111,110	-	3,111,110
Total Fund Balances	\$ 3,401,201	\$ -	\$ 3,401,201
Total Liabilities, and Fund Balances	\$ 5,434,748	\$ 117,211	\$ 5,551,959
Total Governmental Fund Balances			\$ 3,401,201
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		1,864,469	
Accumulated Depreciation is		(1,001,626)	862,843
Total Net Position of Governmental Activities			\$ 4,264,044

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, 2018

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Local Sources	\$ 304,912	\$ 40,506	\$ 345,418
State Sources	15,971,441	19,006	15,990,447
Federal Sources	1,766,938	660,877	2,427,815
Total Revenues	<u>\$ 18,043,291</u>	<u>\$ 720,389</u>	<u>\$ 18,763,680</u>
EXPENDITURES:			
Instruction:			
Basic Programs	\$ 7,858,124	\$ -	\$ 7,858,124
Added Needs	1,295,015	-	1,295,015
Total Instruction	<u>\$ 9,153,139</u>	<u>\$ -</u>	<u>\$ 9,153,139</u>
Support Services:			
Instructional Support	\$ 1,516,303	\$ -	\$ 1,516,303
Pupil Support	949,667	-	949,667
General Administration	586,882	-	586,882
School Administration	1,262,124	-	1,262,124
Business Service	1,152,118	-	1,152,118
Operations and Maintenance	1,586,369	-	1,586,369
Pupil Transportation	38,866	-	38,866
Central Support Services	774,312	-	774,312
Other Support Services	157,899	-	157,899
Total Support Services	<u>\$ 8,024,540</u>	<u>\$ -</u>	<u>\$ 8,024,540</u>
Debt Service:			
Interest	\$ 74,195	\$ -	\$ 74,195
Community Services	\$ 45,329	\$ -	\$ 45,329
Food Services	\$ -	\$ 818,564	\$ 818,564
Capital Improvements	\$ 249,615	\$ -	\$ 249,615
Total Expenditures	<u>\$ 17,546,818</u>	<u>\$ 818,564</u>	<u>\$ 18,365,382</u>
Excess (Deficiency) of Revenues over Expenditures	\$ 496,473	\$ (98,175)	\$ 398,298
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	-	98,175	98,175
Operating Transfers Out	(98,175)	-	(98,175)
NET CHANGE IN FUND BALANCES	<u>\$ 398,298</u>	<u>\$ -</u>	<u>\$ 398,298</u>
Beginning of Year	3,002,903	-	3,002,903
End of Year	<u>\$ 3,401,201</u>	<u>\$ -</u>	<u>\$ 3,401,201</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, 2018

Net Change in Fund Balances - Governmental Funds \$ 398,298

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	221,659
Depreciation Expense	(323,835)

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	<u>(208,953)</u>
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Change in Net Position - Governmental Activities	<u><u>\$ 87,169</u></u>
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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, 2018**

	<u>Budgeted Amounts</u>			Variance Under/ (Over) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES:				
Local Sources	\$ 201,162	\$ 316,748	\$ 304,912	\$ 11,836
State Sources	15,418,547	16,273,946	15,971,441	302,505
Federal Sources	1,803,352	1,850,506	1,766,938	83,568
Total Revenues	<u>\$ 17,423,061</u>	<u>\$ 18,441,200</u>	<u>\$ 18,043,291</u>	<u>\$ 397,909</u>
EXPENDITURES:				
Instruction:				
Basic Programs	\$ 8,134,321	\$ 8,043,967	\$ 7,858,124	\$ 185,843
Added Needs	1,437,516	1,585,519	1,295,015	290,504
Total Instruction	<u>\$ 9,571,837</u>	<u>\$ 9,629,486</u>	<u>\$ 9,153,139</u>	<u>\$ 476,347</u>
Support Services:				
Instructional Support	\$ 1,376,980	\$ 1,539,251	\$ 1,516,303	\$ 22,948
Pupil Support	1,039,583	1,000,695	949,667	51,028
General Administration	477,872	588,661	586,882	1,779
School Administration	1,103,414	1,267,558	1,262,124	5,434
Business Service	1,151,967	1,167,117	1,152,118	14,999
Operations and Maintenance	1,539,099	1,703,933	1,586,369	117,564
Pupil Transportation	39,950	41,950	38,866	3,084
Central Support Services	694,974	816,702	774,312	42,390
Other Support Services	170,476	177,462	157,899	19,563
Total Support Services	<u>\$ 7,594,315</u>	<u>\$ 8,303,329</u>	<u>\$ 8,024,540</u>	<u>\$ 278,789</u>
Debt Service				
Interest	\$ 55,000	\$ 75,000	\$ 74,195	\$ 805
Community Services	<u>\$ 50,041</u>	<u>\$ 61,272</u>	<u>\$ 45,329</u>	<u>\$ 15,943</u>
Capital Improvements	<u>\$ 233,600</u>	<u>\$ 280,600</u>	<u>\$ 249,615</u>	<u>\$ 30,985</u>
Total Expenditures	<u>\$ 17,504,793</u>	<u>\$ 18,349,687</u>	<u>\$ 17,546,818</u>	<u>\$ 802,869</u>
Excess (Deficiency) of Revenues over Expenditures	\$ (81,732)	\$ 91,513	\$ 496,473	\$ (404,960)
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(150,980)	(118,619)	(98,175)	(20,444)
NET CHANGE IN FUND BALANCES	<u>\$ (232,712)</u>	<u>\$ (27,106)</u>	<u>\$ 398,298</u>	<u>\$ (425,404)</u>
Beginning of Year	3,002,903	3,002,903	3,002,903	-
End of Year	<u>\$ 2,770,191</u>	<u>\$ 2,975,797</u>	<u>\$ 3,401,201</u>	<u>\$ (425,404)</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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Under/(Over) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local Sources	\$ 42,000	\$ 42,300	\$ 40,506	\$ 1,794
State Sources	20,000	19,006	19,006	-
Federal Sources	549,500	642,636	660,877	(18,241)
Total Revenues	<u>\$ 611,500</u>	<u>\$ 703,942</u>	<u>\$ 720,389</u>	<u>\$ (16,447)</u>
EXPENDITURES:				
Food Services	\$ 762,480	\$ 822,561	\$ 818,564	\$ 3,997
Total Expenditures	<u>\$ 762,480</u>	<u>\$ 822,561</u>	<u>\$ 818,564</u>	<u>\$ 3,997</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (150,980)</u>	<u>\$ (118,619)</u>	<u>\$ (98,175)</u>	<u>\$ (20,444)</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	\$ 150,980	\$ 118,619	\$ 98,175	\$ 20,444
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, 2018

	<u>Student Activities - Agency Fund</u>
Assets - Due from General Fund	<u>\$ 116,808</u>
Liabilities - Due to Student Groups	<u>\$ 116,808</u>

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

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(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 December 14, 2007, PSAD entered into a ten-year contract with Grand Valley State University. On February 2, 2018, PSAD signed another ten-year-contract with GVSU that expires on June 30, 2028. 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, 2018 were \$433,319.

(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.

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(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; 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.

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:

Cash and Cash Equivalents

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

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(Continued)

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

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, 2018, no expenditures exceeded appropriations.

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(Continued)

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

Capital Assets

Capital assets purchased or acquired are stated at historical cost. The Academy's capitalization policy is to capitalize purchases that exceed \$5,000 and have estimated useful lives in excess of one year.

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	3 – 10 years
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(4) **CASH AND CASH EQUIVALENTS**

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

Cash and Cash Equivalents	<u>\$ 2,082,195</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 \$2,182,077. Of this amount \$250,000 was covered by federal depository insurance and \$1,932,077 was uninsured and uncollateralized.

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(Continued)

(5) **CAPITAL ASSETS**

A summary of capital assets is presented below:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2018</u>
Furniture and Other Equipment	\$ 1,642,810	\$ 221,659	\$ -	\$ 1,864,469
Less: Accumulated Depreciation	<u>(677,791)</u>	<u>(323,835)</u>	<u>-</u>	<u>(1,001,626)</u>
Net Capital Assets	<u>\$ 965,019</u>	<u>\$ (102,176)</u>	<u>\$ -</u>	<u>\$ 862,843</u>

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

Due from other governmental units as of June 30, 2018 for the Academy's general fund and school service fund were as follows:

State of Michigan - State Aid	\$ 2,940,614
State of Michigan - Federal	299,210
Wayne RESA	<u>3,314</u>
Total	<u>\$ 3,243,138</u>

(7) **MANAGEMENT AGREEMENT**

For the year ended June 30, 2018, 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 for the year ended June 30, 2018 was \$753,902.

(8) **LOAN PAYABLE**

On August 25, 2017, PSAD entered into an Agreement with Comerica Bank on behalf of the Academy for a Promissory Note in the amount of \$2 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 \$500,000 was due April 27, 2018 and the remaining payments are due monthly. The Note matures August 31, 2018 and the balance of the note as of June 30, 2018 was \$500,000. The total interest expense was \$74,195 at June 30, 2018.

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(Continued)

(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. Three leases require annual base rents of \$1 each, and expires on June 30, 2020, 2022 and 2023, respectively. The two elementary school leases expire June 30, 2020 and 2023; and one has minimum future lease requirements as follows:

	Middle School
2019	\$ 41,853
2020	41,853
2021	41,853
2022	42,853
2023	43,853
Thereafter	1,117,672
Total	\$ 1,329,937

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) **DEFERRED INFLOW - UNAVAILABLE/UNEARNED REVENUE**

At June 30, 2018, 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. The components are as follows:

	Deferred Inflow - Unavailable	Unearned
Grants and Categorical Aid Payments received prior to meeting all eligibility requirements	\$ -	\$ 255,409

UNIVERSITY PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018
(Continued)

(11) **CONTINGENT LIABILITIES**

At June 30, 2018, the Academy has recorded a contingent liability in the amount of \$19,161 for estimated and unbilled DTE Energy gas fees.

(12) **SUBSEQUENT EVENTS**

On August 30, 2018, PSAD entered into an Agreement on behalf of the Academy with Comerica Bank for a note in the amount of \$1,750,000. 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 \$70,487 and five monthly principal payments as follows:

Date	Amount
4/26/2019	\$ 500,000
5/31/2019	500,000
6/28/2019	500,000
7/26/2019	250,000
Total Principal	\$ 1,750,000
Interest	70,487
Total Principal and Interest	\$ 1,820,487

Subsequent events have been evaluated through October 30, 2018, 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.