

UNIVERSITY PREP SCIENCE AND MATH
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT
JUNE 30, 2016

UNIVERSITY PREP SCIENCE AND MATH
FINANCIAL STATEMENTS
JUNE 30, 2016

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report on Financial Statements	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Academy-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	
Statement of Revenues, Expenditures and Changes in Funds Balances - Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	13
Budgetary Comparison Schedule - School Service Fund	14
Statement of Fiduciary Assets and Liabilities	15
Notes to the Financial Statements	16-22



**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 Prep Science and Math 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 Science and Math 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.

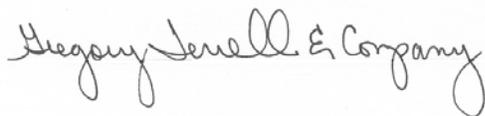
Other Matters

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 13–14, 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 PREP SCIENCE AND MATH
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016

This section of University Prep Science and Math'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 Prep Science and Math 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 fund - the General Fund, with all other funds presented in one column as non-major funds.

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 PREP SCIENCE AND MATH
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. 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 PREP SCIENCE AND MATH
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	\$ 4,227,537	\$ 4,757,887
Capital Assets (net)	1,046,677	1,004,300
Total Assets	\$ 5,274,214	\$ 5,762,187
Liabilities		
Current and Other Liabilities	\$ 1,227,785	\$ 2,121,201
	\$ 1,227,785	\$ 2,121,201
Net Assets		
Investment in Capital Assets	\$ 1,046,677	\$ 1,004,300
Unrestricted	2,999,752	2,633,686
Total Net Position	\$ 4,046,429	\$ 3,637,986

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 \$2,999,752 and \$2,633,686 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 PREP SCIENCE AND MATH
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:

	Governmental Activities	
	June 30	
	2016	2015
Revenue		
Program Revenue:		
Operating Grants	\$ 2,590,007	\$ 2,473,076
Charges for Services	44,973	41,736
General Revenue:		
State Foundation Allowance	10,488,777	10,479,833
Miscellaneous Revenue	79,300	42,414
Total Revenue	<u>\$ 13,203,057</u>	<u>\$ 13,037,059</u>
Functions/Program Expenditures		
Instruction	\$ 5,986,826	\$ 5,560,299
Support Services	5,867,496	5,560,442
Food Services	507,774	447,726
Community Services	107,651	79,757
Interest	36,595	55,726
Unallocated Depreciation	288,272	204,330
Total Expenditures	<u>\$ 12,794,614</u>	<u>\$ 11,908,280</u>
Increase in Net Position	<u>\$ 408,443</u>	<u>\$ 1,128,779</u>

As reported in the statement of activities, the cost of all *governmental* activities for the year ended June 30, 2016 and 2015 was \$12.8 million and \$11.9 million, respectively. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions \$2,590,007 in 2016 and \$2,473,076 in 2015. We paid for the remaining "public benefit" portion of our governmental activities with \$10,488,777 in 2016 and \$10,479,833 in 2015 in State foundation allowance, and with our other revenues, i.e., interest and contributions.

UNIVERSITY PREP SCIENCE AND MATH
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 a net investment of \$1,046,677 in furniture and computer hardware. 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 1,462 students for the 2016-2017 school-year, which is an increase of 17 students from the 2015-2016 school year. The 2016-2017 school-year will be the ninth year of operation for the Academy.

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 District'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 Prep Science & Math, 610 Antoinette, MI 48202.

UNIVERSITY PREP SCIENCE AND MATH
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets	
Cash and Cash Equivalents (Note 4)	\$ 1,977,444
Due from Other Governmental Units (Note 6)	2,196,760
Accounts Receivable	17,222
Prepaid Expenses	36,111
Capital Assets (net) (Note 5)	1,046,677
Total Assets	\$ 5,274,214
 Liabilities	
Accounts Payable	\$ 241,917
Accrued Expenditures	476,025
Due to Student Groups	121,529
Unearned Revenue (Note 10)	68,314
Contingent Liabilities (Note 11)	20,000
Loan Payable (Note 8)	300,000
Total Liabilities	\$ 1,227,785
 Net Position	
Invested in Capital Assets	\$ 1,046,677
Unrestricted	2,999,752
Total Net Position	\$ 4,046,429

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

UNIVERSITY PREP SCIENCE AND MATH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Revenues and Change in Net Position</u>
Governmental Activities:				
Instruction	\$ 5,986,826	\$ -	1,596,081	\$ (4,390,745)
Support Services	5,867,496	-	569,531	(5,297,965)
Food Services	507,774	44,973	424,395	(38,406)
Community Services	107,651	-	-	(107,651)
Interest	36,595	-	-	(36,595)
Unallocated Depreciation	288,272	-	-	(288,272)
Total Governmental Activities:	<u>\$ 12,794,614</u>	<u>\$ 44,973</u>	<u>\$ 2,590,007</u>	<u>\$ (10,159,634)</u>
General Revenues:				
State of Michigan School Aid Unrestricted				\$ 10,488,777
Miscellaneous Revenue				<u>79,300</u>
Total General Revenues				<u>\$ 10,568,077</u>
Change in Net Position				\$ 408,443
Net Position , Beginning of Year				<u>3,637,986</u>
Net Position , End of Year				<u><u>\$ 4,046,429</u></u>

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

UNIVERSITY PREP SCIENCE AND MATH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Assets			
Cash and Cash Equivalents (Note 4)	\$ 1,977,444	\$ -	\$ 1,977,444
Due from Other Governmental Units (Note 6)	2,117,790	78,970	2,196,760
Accounts Receivable	17,222	-	17,222
Prepaid Expenses	36,111	-	36,111
Due from Other Funds	56,187	-	56,187
Total Assets	\$ 4,204,754	\$ 78,970	\$ 4,283,724
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 219,134	\$ 22,783	\$ 241,917
Accrued Expenditures	476,025	-	476,025
Due to Student Groups	121,529	-	121,529
Unearned Revenue (Note 10)	68,314	-	68,314
Contingent Liabilities (Note 11)	20,000	-	20,000
Loan Payable (Note 8)	300,000	-	300,000
Due to Other Funds	-	56,187	56,187
Total Liabilities	\$ 1,205,002	\$ 78,970	\$ 1,283,972
Deferred Inflow of Resources - Unavailable			
Revenue (Note 10)	\$ 6,032	\$ -	\$ 6,032
Fund Balances			
Non-spendable	\$ 36,111	\$ -	\$ 36,111
Unassigned	2,957,609	-	2,957,609
Total Fund Balances	\$ 2,993,720	\$ -	\$ 2,993,720
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$ 4,204,754	\$ 78,970	\$ 4,283,724
Total Governmental Fund Balances			\$ 2,993,720
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		1,672,733	
Accumulated Depreciation is		(626,056)	1,046,677
Receivables are not available to pay current period expenditures and are therefore deferred in the Governmental Funds			
			6,032
Net Position - Governmental Activities			\$ 4,046,429

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

UNIVERSITY PREP SCIENCE AND MATH
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	\$ 538,021	\$ 44,974	\$ 582,995
State Sources	11,220,869	16,321	11,237,190
Federal Sources	985,573	408,073	1,393,646
Total Revenues	\$ 12,744,463	\$ 469,368	\$ 13,213,831
EXPENDITURES:			
Instruction:			
Basic Programs	\$ 5,040,359	\$ -	\$ 5,040,359
Added Needs	986,591	-	986,591
Total Instruction	\$ 6,026,950	\$ -	\$ 6,026,950
Support Services:			
Pupil Services	\$ 681,200	\$ -	\$ 681,200
Instructional Staff	705,924	-	705,924
General Administration	400,509	-	400,509
School Administration	785,934	-	785,934
Business Services	864,052	-	864,052
Operations and Maintenance	1,809,284	-	1,809,284
Pupil Transportation	14,865	-	14,865
Central Support Services	686,164	-	686,164
Other Support Services	105,667	-	105,667
Total Support Services	\$ 6,053,599	\$ -	\$ 6,053,599
Debt Service			
Interest	\$ 36,595	\$ -	\$ 36,595
Community Services	\$ 107,651	\$ -	\$ 107,651
Food Services	\$ -	\$ 507,774	\$ 507,774
Capital Improvements	\$ 104,422	\$ -	\$ 104,422
Total Expenditures	\$ 12,329,217	\$ 507,774	\$ 12,836,991
Excess (Deficiency) of Revenues over Expenditures	\$ 415,246	\$ (38,406)	\$ 376,840
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	-	38,406	38,406
Operating Transfers Out	(38,406)	-	(38,406)
NET CHANGE IN FUND BALANCES	\$ 376,840	\$ -	\$ 376,840
Beginning of Year	2,616,880	-	2,616,880
End of Year	\$ 2,993,720	\$ -	\$ 2,993,720

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

UNIVERSITY PREP SCIENCE AND MATH
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 \$ 376,840

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

Governmental funds report Capital Outlay as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capitalized Outlay	330,649
Depreciation Expense	(288,272)

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.

Current year operating revenue	6,032
Prior year grant revenue	<u>(16,806)</u>

Change in Net Position - Governmental Activities \$ 408,443

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

UNIVERSITY PREP SCIENCE AND MATH
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Under/(Over) Final Budget</u>
REVENUES:				
Local Sources	\$ 497,825	\$ 507,002	\$ 538,021	\$ (31,019)
State Sources	11,181,156	11,216,020	11,220,869	(4,849)
Federal Sources	946,030	1,041,715	985,573	56,142
Total Revenues	<u>\$ 12,625,011</u>	<u>\$ 12,764,737</u>	<u>\$ 12,744,463</u>	<u>\$ 20,274</u>
EXPENDITURES:				
Instruction:				
Basic Programs	\$ 5,304,053	\$ 5,051,144	\$ 5,040,359	\$ 10,785
Added Needs	950,962	988,501	986,591	1,910
Total Instruction	<u>\$ 6,255,015</u>	<u>\$ 6,039,645</u>	<u>\$ 6,026,950</u>	<u>\$ 12,695</u>
Support Services:				
Pupil Services	\$ 735,880	\$ 699,206	\$ 681,200	\$ 18,006
Instructional Staff	548,973	721,927	705,924	16,003
General Administration	441,989	381,755	400,509	(18,754)
School Administration	784,932	787,297	785,934	1,363
Business Services	958,059	869,065	864,052	5,013
Operations and Maintenance	1,726,981	1,817,135	1,809,284	7,851
Pupil Transportation	40,000	30,721	14,865	15,856
Central Support Services	527,415	722,663	686,164	36,499
Other Support Services	124,300	124,379	105,667	18,712
Total Support Services	<u>\$ 5,888,529</u>	<u>\$ 6,154,148</u>	<u>\$ 6,053,599</u>	<u>\$ 100,549</u>
Debt Service				
Interest	\$ 55,000	\$ 39,000	\$ 36,595	\$ 2,405
Community Services	\$ 70,195	\$ 127,535	\$ 107,651	\$ 19,884
Capital Improvements	\$ 100,000	\$ 128,000	\$ 104,422	\$ 23,578
Total Expenditures	<u>\$ 12,368,739</u>	<u>\$ 12,488,328</u>	<u>\$ 12,329,217</u>	<u>\$ 159,111</u>
Excess (Deficiency) of Revenues over Expenditures	\$ 256,272	\$ 276,409	\$ 415,246	\$ (138,837)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out)	(50,059)	(42,913)	(38,406)	4,507
NET CHANGE IN FUND BALANCE	<u>\$ 206,213</u>	<u>\$ 233,496</u>	<u>\$ 376,840</u>	<u>\$ (143,344)</u>
Beginning of Year	<u>2,616,880</u>	<u>2,616,880</u>	<u>2,616,880</u>	<u>-</u>
End of Year	<u>\$ 2,823,093</u>	<u>\$ 2,850,376</u>	<u>\$ 2,993,720</u>	<u>\$ (143,344)</u>

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

UNIVERSITY PREP SCIENCE AND MATH
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	\$ 42,000	\$ 46,000	\$ 44,974	\$ 1,026
State Sources	-	16,321	16,321	-
Federal Sources	362,000	371,000	408,073	(37,073)
Total Revenues	<u>\$ 404,000</u>	<u>\$ 433,321</u>	<u>\$ 469,368</u>	<u>\$ (36,047)</u>
EXPENDITURES:				
Food Services	<u>\$ 454,059</u>	<u>\$ 476,234</u>	<u>\$ 507,774</u>	<u>\$ (31,540)</u>
Total Expenditures	<u>\$ 454,059</u>	<u>\$ 476,234</u>	<u>\$ 507,774</u>	<u>\$ (31,540)</u>
Excess (Deficiency) of Revenues over Expenditures	\$ (50,059)	\$ (42,913)	\$ (38,406)	\$ (4,507)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out)	<u>50,059</u>	<u>42,913</u>	<u>38,406</u>	<u>4,507</u>
NET CHANGE IN FUND BALANCE				
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 PREP SCIENCE AND MATH
FIDUCIARY FUND
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2016

	<u>Student Activities - Agency Fund</u>
Assets - Due from General Fund	<u>\$ 121,529</u>
Liabilities - Due to Student Groups	<u>\$ 121,529</u>

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) **ORGANIZATION**

University Prep Science and Math (“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 on July 1, 2008.

(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 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. 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.

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(Continued)

(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 fund:

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.

(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 Prep Science and Math (the "Academy") are described as follows:

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(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.

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	381,755	400,509	(18,754)

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(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 individual 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 estimated lives as follows:

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>\$ 1,977,444</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 \$2,141,793. Of this amount, \$250,000 is covered by Federal Depository Insurance and \$1,891,793 was uninsured and uncollateralized.

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

(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 and Other Equipment	\$ 1,342,084	\$ 330,649	\$ -	\$ 1,672,733
Less: Accumulated Depreciation	<u>(337,784)</u>	<u>(288,272)</u>	<u>-</u>	<u>(626,056)</u>
Net Capital Assets	<u>\$ 1,004,300</u>	<u>\$ 42,377</u>	<u>\$ -</u>	<u>\$ 1,046,677</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	\$ 2,058,577
State of Michigan - Federal Grants	133,830
Wayne RESA	<u>4,353</u>
Total	<u>\$ 2,196,760</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 6.2% of the Academy's state aid receipts. The management agreement provides for a minimum management fee of \$450,000 and a maximum management fee of \$900,000. The management fee for the year ended June 30, 2016 was \$657,449.

(8) **LOAN PAYABLE**

On August 22, 2015, PSAD entered into an agreement with Comerica Bank behalf of the Academy for a State Aid Note in the amount of \$1,200,000. The Note is guaranteed by the Academy's State Aid payments. The note has a daily adjusting LIBOR rate plus 3.0 percent. The Note requires four monthly principal and interest payments. The Notes matures July 29, 2016 and the balance of the note as of June 30, 2016 was \$300,000. Total interest expense was \$36,595 at June 30, 2016.

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

(9) **COMMITMENTS**

The Academy leases its buildings from PSAD, which is obligated under three operating leases for its elementary, middle and high school facilities. One lease requires an annual base rent of \$1 and expires on June 30, 2019 and two have minimum future lease requirements as follows:

	High School	Elementary School
2017	\$ 235,003	\$ 165,000
2018	632,950	165,000
2019	832,200	242,500
2020	833,690	535,000
2021	835,103	535,000
Thereafter	836,440	1,080,820
Total	\$ 4,205,386	\$ 2,723,320

The Academy is responsible for all required maintenance for the facility. The leases also require the Academy to meet certain performance standards including re-enrollment rates, average daily attendance rates, and minimum test scores.

(10) **UNAVAILABLE/UNEARNED 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
Rents, Grants and Categorical Aid Payments received prior to meeting all eligibility requirements:	\$ 6,032	\$ 68,314

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(Continued)

(11) **CONTINGENT LIABILITIES**

At June 30, 2016, the Academy has recorded a contingent liability in the amount of \$20,000 as a result of the elementary 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 \$1,000,000. The Note is guaranteed by the Academy's State Aid Payments. The Note has a Daily Adjusting LIBOR Rate plus 3 percent. The Note requires total interest payments of \$26,624 and four monthly principal payments as follows:

<u>Date</u>	<u>Amount</u>
4/28/2017	\$ 300,000
5/26/2017	300,000
6/30/2017	200,000
7/28/2017	200,000
Total Principal	\$ 1,000,000
Interest	26,624
Total Principal and Interest	\$ 1,026,624

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.