

UNIVERSITY PREP SCIENCE AND MATH
FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT
JUNE 30, 2009

UNIVERSITY PREP SCIENCE AND MATH
FINANCIAL STATEMENTS
JUNE 30, 2009

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 Assets	8
Statement of Activities	9
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	10
Statement of Revenues, Expenditures and Changes in Fund 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
Notes to Financial Statements	14-19
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters	20-21



**GREGORY
TERRELL
& COMPANY**

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
The Public School Academies of Detroit

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate fund information of the University Prep Science and Math as of and for the year ended June 30, 2009, as listed in the accompanying table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

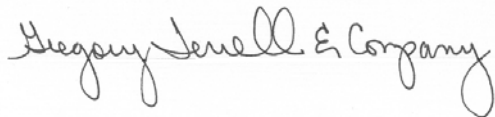
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the University Prep Science and Math as of June 30, 2009, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated September 12, 2009 on our consideration of the University Prep Science and Math's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

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

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

A handwritten signature in cursive script that reads "Gregory Terrell & Company".

GREGORY TERRELL & COMPANY
Certified Public Accountants

September 1, 2009

UNIVERSITY PREP SCIENCE AND MATH
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2009

This section of University Prep Science & Math's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2009. 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 & 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 nonmajor 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, 2009

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

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

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law. 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 assets and the statement of activities) and governmental funds in a reconciliation.

UNIVERSITY PREP SCIENCE AND MATH
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2009

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30, 2009:

Table 1

	<u>Governmental Activities</u>	
	<u>June 30, 2009</u>	
Assets		
Current and other assets	\$	475,554
Liabilities		
Current and other liabilities	\$	457,464
Net Assets		
Unrestricted	\$	18,090

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's unrestricted net assets were \$18,090 at June 30, 2009. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

UNIVERSITY PREP SCIENCE AND MATH
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2009

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the increase in net assets for the fiscal year ending June 30, 2009.

Table 2

	<u>Governmental Activities</u>
	<u>Year Ending</u>
	<u>June 30, 2009</u>
Revenue	
Program revenue:	
Operating grants	\$ 562,045
Charges for service	24,585
General revenue:	
State foundation allowance	1,205,371
Miscellaneous revenue	18,734
Total revenue	1,810,735
Functions/Program Expenditures	
Instruction	763,728
Support services	957,536
Food services	64,762
Interest	6,619
Total expenditures	1,792,645
Increase in Net Assets	18,090
Net Assets - Beginning of Year	-
Net Assets - End of Year	\$ 18,090

As reported in the statement of activities, the cost of all *governmental* activities for the year ended June 30, 2009 was \$1.8 million. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants and contributions (\$562,045 in 2009). We paid for the remaining "public benefit" portion of our governmental activities with \$1,167,719 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, 2009

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.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the Academy's 2009-2010 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the student count by the foundation allowance per pupil. The Academy expects to enroll 396 students in the 2009-2010 school year, which is an increase of 234 students from the 2008-2009 school year. The 2009-2010 school year will be the second 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, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to its various school districts. The State's School Aid Fund is currently projecting a \$1.04 billion budget shortfall for its 2010 fiscal year. It is anticipated that funding allowed for by the Federal government's American Reinvestment and Recovery Act of 2009 will be used by the State to offset a portion of the deficit. The Academy's management has been monitoring developments closely as the State's budget deadline draws near. The Academy has prepared its 2010 budget assuming a \$150 per pupil reduction in state aid revenue. In addition, the Academy continues to be diligent in its spending and monitor its budget closely.

Contacting the Academy's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the District's finances and to show the 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, 5100 John R, Detroit, MI 48202.

UNIVERSITY PREP SCIENCE AND MATH
STATEMENT OF NET ASSETS
JUNE 30, 2009

		<u>Governmental Activities</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$	161,092
Due from Other Governmental Units		295,671
Accounts Receivable		<u>18,791</u>
Total Assets		<u>\$ 475,554</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$	76,785
Accrued Expenditures		51,679
Loan Payable		<u>329,000</u>
Total Liabilities	\$	<u>457,464</u>
Net Assets		
Unrestricted		
Total Net Assets	\$	<u>18,090</u>
Total Liabilities and Net Assets	\$	<u>475,554</u>

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, 2009

<u>Function / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Activities</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Net (expenses)</u>
		<u>Services</u>	<u>Grants</u>	<u>Revenues and</u>
				<u>Changes in</u>
				<u>Net Assets</u>
Governmental Activities:				
Instruction	\$ 763,728	\$ -	\$ 330,528	\$ (433,200)
Support Services	957,536	-	199,431	(758,105)
Food Services	64,762	24,585	32,086	(8,091)
Interest	6,619	-	-	(6,619)
Total Governmental Activities:	<u>\$ 1,792,645</u>	<u>\$ 24,585</u>	<u>\$ 562,045</u>	<u>\$ (1,206,015)</u>
General Revenues:				
State of Michigan School Aid Unrestricted				\$ 1,205,371
Miscellaneous Revenue				<u>18,734</u>
Total General Revenues				<u>\$ 1,224,105</u>
Change in Net Assets				\$ 18,090
Net Assets , Beginning of Year				<u>-</u>
Net Assets , End of Year				<u>\$ 18,090</u>

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

UNIVERSITY PREP SCIENCE AND MATH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 161,092	\$ -	\$ 161,092
Due from Other Governmental Units	295,671	-	295,671
Account Receivables	18,791	-	18,791
Due from Other Funds	<u>-</u>	<u>5,272</u>	<u>5,272</u>
Total Assets	<u>\$ 475,554</u>	<u>\$ 5,272</u>	<u>\$ 480,826</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	\$ 71,513	\$ 5,272	\$ 76,785
Accrued Expenditures	51,679	-	51,679
Loan Payable	329,000	-	329,000
Due to Other Funds	<u>5,272</u>	<u>-</u>	<u>5,272</u>
Total Liabilities	<u>\$ 457,464</u>	<u>\$ 5,272</u>	<u>\$ 462,736</u>
Fund Balances			
Unreserved, reported in:			
Unrestricted	<u>\$ 18,090</u>	<u>\$ -</u>	<u>\$ 18,090</u>
Total Fund Balances	<u>\$ 18,090</u>	<u>\$ -</u>	<u>\$ 18,090</u>
Total Liabilities and Fund Balances	<u>\$ 475,554</u>	<u>\$ 5,272</u>	<u>\$ 480,826</u>
Total Governmental Fund Balances			\$ 18,090
Amounts reported for governmental activities in the Statement of Net Assets that are different			<u>-</u>
Total Net Assets of Governmental Activities			<u>\$ 18,090</u>

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, 2009

	<u>General Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Local Sources	\$ 234,710	\$ 24,585	\$ 259,295
State Sources	1,205,371	-	1,205,371
Federal Sources	<u>313,982</u>	<u>32,086</u>	<u>346,068</u>
Total Revenues	<u>\$ 1,754,063</u>	<u>\$ 56,671</u>	<u>\$ 1,810,734</u>
EXPENDITURES:			
Current:			
Instruction:			
Basic Programs	\$ 710,230	\$ -	\$ 710,230
Added Needs	<u>53,497</u>	<u>-</u>	<u>53,497</u>
Total Instruction	<u>\$ 763,727</u>	<u>\$ -</u>	<u>\$ 763,727</u>
Support Services:			
Pupil Services	\$ 17,947	\$ -	\$ 17,947
Instructional Staff	25,783	-	25,783
General Administration	173,862	-	173,862
School Administration	193,981	-	193,981
Business Service	150,577	-	150,577
Operations and Maintenance	383,402	-	383,402
Central Support Services	11,985	-	11,985
Debt Service			
Interest	<u>6,619</u>	<u>-</u>	<u>6,619</u>
Total Support Services	<u>\$ 964,156</u>	<u>\$ -</u>	<u>\$ 964,156</u>
Community Services	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Food Services	<u>\$ -</u>	<u>\$ 64,761</u>	<u>\$ 64,761</u>
Total Expenditures	<u>\$ 1,727,883</u>	<u>\$ 64,761</u>	<u>\$ 1,792,644</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 26,180</u>	<u>\$ (8,090)</u>	<u>\$ 18,090</u>
OTHER FINANCING SOURCES (USES):			
Operating Transfers In	\$ -	\$ 8,090	8,090
Operating Transfers Out	<u>(8,090)</u>	<u>-</u>	<u>(8,090)</u>
NET CHANGE IN FUND BALANCES	\$ 18,090	\$ -	\$ 18,090
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u>\$ 18,090</u>	<u>\$ -</u>	<u>\$ 18,090</u>

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, 2009

Net Change in Fund Balances - Governmental Funds	\$ 18,090
Amounts reported for governmental activities in the statement of activities that are different	<u>-</u>
Change in Net Assets - Governmental Activities	<u>\$ 18,090</u>

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, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive / (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local Sources	\$ 151,069	\$ 221,783	\$ 234,710	\$ 12,927
State Sources	1,289,520	1,222,247	1,205,371	(16,876)
Federal Sources	<u>322,178</u>	<u>333,045</u>	<u>313,982</u>	<u>(19,063)</u>
Total Revenues	<u>\$ 1,762,767</u>	<u>\$ 1,777,075</u>	<u>\$ 1,754,063</u>	<u>\$ (23,012)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic Programs	\$ 718,052	\$ 741,771	\$ 710,230	\$ 31,541
Added Needs	<u>47,552</u>	<u>53,497</u>	<u>53,497</u>	<u>-</u>
Total Instruction	<u>\$ 765,604</u>	<u>\$ 795,268</u>	<u>\$ 763,727</u>	<u>\$ 31,541</u>
Support Services:				
Pupil Services	\$ 18,000	\$ 19,000	\$ 17,947	\$ 1,053
Instructional Staff	7,000	17,284	25,783	(8,499)
General Administration	177,906	174,986	173,862	1,124
School Administration	193,917	193,981	193,981	-
Business Service	150,607	156,807	150,577	6,230
Operations and Maintenance	400,000	384,488	383,402	1,086
Central Support Services	6,000	12,550	11,985	565
Debt Service				
Interest	<u>15,000</u>	<u>7,000</u>	<u>6,619</u>	<u>381</u>
Total Support Services	<u>\$ 968,430</u>	<u>\$ 966,096</u>	<u>\$ 964,156</u>	<u>\$ 1,940</u>
Community Services	<u>\$ -</u>	<u>\$ 1,568</u>	<u>\$ -</u>	<u>\$ 1,568</u>
Total Expenditures	<u>\$ 1,734,034</u>	<u>\$ 1,762,932</u>	<u>\$ 1,727,883</u>	<u>\$ 35,049</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ 28,733</u>	<u>\$ 14,143</u>	<u>\$ 26,180</u>	<u>\$ (12,037)</u>
OTHER FINANCING SOURCES (USES):				
Operating Transfers In (Out)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,090)</u>	<u>\$ (8,090)</u>
NET CHANGE IN FUND BALANCE	\$ 28,733	\$ 14,143	\$ 18,090	\$ 3,947
Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of Year	<u>\$ 28,733</u>	<u>\$ 14,143</u>	<u>\$ 18,090</u>	<u>\$ 3,947</u>

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

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

(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.

On December 14, 2007, PSAD entered into a ten-year contract with Grand Valley State University. The contracts 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 (3%) percent of its state aid as administrative fees. The total administrative fees paid for the year ended June 30, 2009 were \$30,137.

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

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

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

Measurement focus, basis of accounting, and financial statement presentation

The academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

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

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

Governmental fund financial statements are reported using the current *financial resources, measurement focus* and the *modified accrual basis of accounting*. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

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

The Academy reports the following non-major governmental funds:

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

(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 below:

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

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

Cash and Cash Equivalents

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

Revenue Recognition

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

Use of Estimates

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

Budgets and Budgetary Accounts

The General Fund budget was adopted on a basis consistent with accounting principles generally accepted in the United States of America and in compliance with the Uniform Budgeting and Accounting (P.A. 621 of 1978). A separate School Service Fund budget was adopted.

For the year end June 30, 2009, expenditures exceeded appropriations as follows:

<u>General Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Instructional Staff	\$ 17,284	\$ 25,783	\$ (8,499)
Operating Transfers Out	\$ -	\$ 8,090	\$ (8,090)

(4) **CASH AND CASH EQUIVALENTS**

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

Cash and cash equivalents	<u>\$ 161,092</u>
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UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

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

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Academy's deposits may not be returned by the bank. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each financial institution; only those institutions with an acceptable estimated risk level are used as depositories. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$150,353. This amount was covered by federal depository insurance.

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

Due from other governmental units as of June 30, 2009 for the Academy's general fund was as follows:

State of Michigan - State Aid	\$ 163,125
State of Michigan - Federal Grants	72,305
State of Michigan - ARRA Funds	<u>60,241</u>
Total	<u>\$ 295,671</u>

(6) **MANAGEMENT AGREEMENTS**

For the year ended June 30, 2009, the Academy utilized a management company, New Urban Learning ("NUL"), a not-for-profit corporation. NUL provides all Academy personnel, as well as all Academy management and curriculum services. NUL is reimbursed for its direct costs as approved in the Academy's budget. Management fee was set at 2.5% of the Academy's state aid receipts, and amounted to \$25,115.

For the year ended June 30, 2009, the Academy also utilized the services of University Preparatory Academy ("UPA"). UPA provides facilities management, food services, compliance, human resources, bookkeeping, and financial management services to the Academy. The fees for the year ended June 30, 2009 were \$65,000.

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

(Continued)

(7) **SHORT-TERM DEBT**

Loans payable at June 30, 2009 represents the outstanding balance of a \$330,000 line of credit secured by the Academy's state school aid fund with interest at the rate of prime minus one half of one percent. For the year ended June 30, 2009, the outstanding balance was \$329,000.

(8) **OPERATING LEASE COMMITMENTS**

The Academy has an operating lease with Compuware Corporation, a Michigan corporation. The lease requires a monthly payment of \$ 23,505; however, in January 2009, the monthly payment was reduced to \$11,141. The lease expired June 30, 2009. The lease payments for the year ended June 30, 2009 were approximately \$132,882.

(9) **RELATED PARTY TRANSACTION**

The Academy utilizes the services of University Preparatory Academy, as noted in Note 6. The Academy and University Preparatory Academy are both governed by the Public School Academies of Detroit.

(10) **SUBSEQUENT EVENTS**

In August 2009, the Academy moved into a building owned by TEF-5, LLC, a subsidiary of the Thompson Educational Foundation. The Academy leases the building from New Urban Learning, who leases the building from TEF-5, LLC. The lease requires annual base rent of \$1 per year and expires on June 30, 2014.

The Academy is responsible for all required maintenance for the facility. The lease also requires the Academy to meet certain performance standards including re-enrollment rates, average daily attendance rates, and minimum test scores. In addition, a default under the terms of any of the leases between New Urban Learning and/or the Academy and the Thompson Educational Foundation will constitute a default under the terms of New Urban Learning's lease agreement with TEF-5, LLC.

UNIVERSITY PREP SCIENCE AND MATH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
(Continued)

(10) **SUBSEQUENT EVENTS** (cont.)

On July 15, 2009, PSAD entered into an Agreement on behalf of the Academy with the Michigan Public Educational Facilities Authority for a State Aid Note in the amount of \$1.445 million. The Note is guaranteed by the Academy's State Aid payments and bears interest at a rate of 5.63%. The note requires nine monthly principal and interest payments as follows:

<u>Date</u>	<u>Amount</u>
10/20/2009	\$ 150,425
11/20/2009	-
12/21/2009	215,000
1/20/2010	215,000
2/22/2010	205,000
3/22/2010	180,000
4/20/2010	125,000
5/20/2010	30,000
6/21/2010	160,614
7/20/2010	<u>216,832</u>
Total	\$ 1,497,871
Interest	<u>52,871</u>
	<u>\$ 1,445,000</u>



**GREGORY
TERRELL
& COMPANY**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
University Prep Science and Math

We have audited the financial statements of University Prep Science and Math (the "Academy") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 1, 2009. 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.

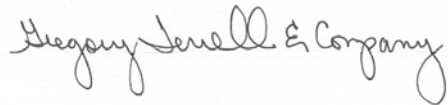
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected with a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards".

This report is intended for the information of the Board of Directors, Management and the Michigan Department of Education. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Gregory Terrell & Company".

GREGORY TERRELL & COMPANY
Certified Public Accountants

September 1, 2009