Hillsdale Preparatory School

Hillsdale, Michigan

Audited Financial Statements

June 30, 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Hillsdale Preparatory School

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Preparatory School, as of and for the year ended June 30, 2009, which collectively comprise the Academy's basic financial statements listed in the table of contents. These financial statements are the responsibility of Hillsdale Preparatory School's management. 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 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 respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Hillsdale Preparatory School 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 August 7, 2009 on our consideration of Hillsdale Preparatory School'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 read in conjunction with this report in considering the results of our audit.

The accompanying financial statements have been prepared assuming that Hillsdale Preparatory School will continue as a going concern. As discussed in Note 11 to the financial statements the Academy is in default of certain obligations and the status of these agreements is uncertain. The condition raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The management's discussion and analysis and budgetary comparison information on pages viii through ix, and 18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The introductory and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillsdale Preparatory School's basic financial statements. The introductory section, combining and individual non major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Croskey, Lanni & Company, PC

Croskey, Lanni & Company, P.C.

August 7, 2009
Rochester, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Hillsdale Preparatory School's annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Financial Highlights

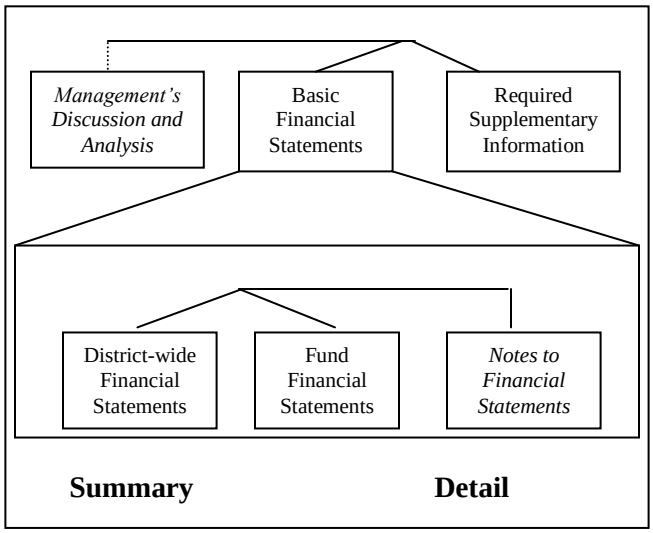
- The Academy had an increase in the general fund balance of $24,209. This gives the Academy a general fund balance of $17,926.
- The Academy did not invest in capital assets during the year.
- The Academy paid $3,460 in long term obligations during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

Figure A-1
Organization of Hillsdale Preparatory School's Financial Report



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Governmental funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-Wide Statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities – The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or show that it is properly using certain revenues (like school lunch).

The Academy has only governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that 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. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial Analysis of the Academy as a Whole

Net assets - the Academy's combined net assets of ($563,306) decreased by $91,858 during the year. See Figures A-3 and A-4.

The total revenues increase by 23% to $577,322. State aid foundation allowance included in revenue from state sources accounts for 85% of the Academy's revenue. The blended enrollment increased 13 students in 2009 to 70.5 students. This resulted in an increase in budgeted state foundation allowance payments of approximately $95,100.

The total cost of instruction increased by 3% to $186,061. Total support services increased by 37% to $284,952. Both were related to the increase in enrollment.

Figure A-3
Hillsdale Preparatory School's Net Assets

	2009	2008
Current assets	$ 366,658	$ 458,107
Capital assets, net	1,775,779	1,823,477
Total assets	2,142,437	2,281,584
Current liabilities	2,705,743	2,753,032
Long-term liabilities	-	-
Total liabilities	2,705,743	2,753,032
Net assets (deficit):		
Invested in capital assets, net of related debt	(704,221)	(659,983)
Restricted for debt service	195,586	293,101
Unrestricted	(54,671)	(104,566)
Total net assets	$ (563,306)	$ (471,448)

Figure A-4
Changes in Hillsdale Preparatory School's Net Assets

	2009	2008
Revenues:		
Program revenues:		
Federal and state categorical grants	$ 60,899	$ 26,013
Charges for service	1,954	6,921
General revenues:		
State aid - unrestricted	489,562	414,222
Other	24,907	20,405
Total general revenues	514,469	434,627
Total revenues	577,322	467,561
Expenses:		
Instruction	186,061	180,103
Support services	284,952	208,149
Interest and fees on long-term debt	150,469	11,380
Unallocated depreciation	47,698	47,698
Total expenses	669,180	447,330
Change in net assets	$ (91,858)	$ 20,231

Financial analysis of the Academy's funds

The general fund balance at June 30, 2009 is $17,926. There was a 25% increase in general fund revenue due to an increase in enrollment. There was a 14% increase in expenditures due to an increase in instructional staff, executive administration, and building operations.

General Fund Budgetary Highlights

Over the course of the year, the Academy revised the general fund annual operating budget to stay within its budgetary plan.

While the Academy's final budget for the general fund anticipated revenues would exceed expenditures and other financing uses by $6,391, the actual results for the year showed a increase in fund balance of $24,209.

Actual revenues were $8,268 more than budget primarily due to higher than anticipated local funds.

Actual expenditures were $9,550 less than budget primarily due to under spending in several areas.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009, the Academy had invested $1,775,779 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a net decrease of $47,698 from the beginning of the year. Total depreciation expense for the year was $47,698. More detailed information about capital assets can be found in Note 5 to the financial statements.

The Academy's capital assets are as follows:

Figure A-5
Hillsdale Preparatory School's Capital Assets

	Balance June 30, 2009	Balance June 30, 2008
Land	$ 100,000	$ 100,000
Building	1,950,503	1,950,503
Computers	42,243	42,243
Equipment and furniture	56,304	56,304
Total cost	2,149,050	2,149,050
Less accumulated depreciation	373,271	325,573
Net book value	$ 1,775,779	$ 1,823,477

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- The Academy has budgeted no change in the per pupil foundation allowance. Preliminary estimate from the State of Michigan is a decrease in foundation allowance of $110 per pupil.

- The Academy has adopted a balanced budget for 2009.

- The Academy has been awarded $6,889 from the American Recovery & Reinvestment Act (ARRA) Title I program.

The Academy continues to place emphasis upon enrollment increases through new working strategies. Enrollment growth will be imperative in continuing financial growth, allowing for facility expansion, and offering additional programmatic opportunities.

Contacting the Academy's Financial Management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, at P.O. Box 141493, Grand Rapids, Michigan, 49514. Phone (616) 785-8440.

HILLSDALE PREPARATORY SCHOOL

STATEMENT OF NET ASSETS
JUNE 30, 2009
See Independent Auditor's Report

ASSETS

Current Assets		
Cash and cash equivalents	$	240,678
Due from other governmental units		125,980
Total current assets		366,658
Facilities, Furniture and Equipment		
At cost less accumulated depreciation of $373,271		1,775,779
Total assets	$	2,142,437

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	$	49,750
Notes payable		38,414
Other accrued expenses		137,579
Long-term debt - current portion		2,480,000
Total current liabilities		2,705,743
Net Assets		
Invested in capital assets, net of related debt		(704,221)
Restricted for debt service		195,586
Unrestricted		(54,671)
Total net assets		(563,306)
Total liabilities and net assets	$	2,142,437

See accompanying notes to financial statements

HILLSDALE PREPARATORY SCHOOL

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
See Independent Auditor's Report

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenues and Changes in Net Assets: Government Type Activities
Basic programs	$ 186,061	$ -	$ 48,586	$ (137,475)
Pupil support	821	-	-	(821)
Instructional staff	11,215	-	11,215	-
General administration	15,851	-	-	(15,851)
Executive administration	68,264	-	-	(68,264)
Building administration	88,199	-	-	(88,199)
Business services	25,882	-	-	(25,882)
Operations and maintenance	67,786	-	-	(67,786)
Central services	6,934	-	1,098	(5,836)
Unallocated depreciation	47,698	-	-	(47,698)
Unallocated interest	150,469	1,954	-	(148,515)
Total primary government	$ 669,180	$ 1,954	$ 60,899	(606,327)
General Purpose Revenues:				
State school aid - unrestricted				489,562
Rental income				14,390
Miscellaneous				10,517
Total general purpose revenues				514,469
Excess of expenses over revenues				(91,858)
Net assets - July 1, 2008				(471,448)
Net assets - June 30, 2009				$ (563,306)

See accompanying notes to financial statements

HILLSDALE PREPARATORY SCHOOL

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009
See Independent Auditor's Report

ASSETS

	General	Debt Service
Cash and cash equivalents	$ 45,092	$ -
Investments	-	195,586
Due from general fund	-	33,217
Due from other governmental units	125,980	-
Total assets	$ 171,072	$ 228,803

LIABILITIES AND FUND BALANCES

Liabilities		
Accounts payable	$ 49,750	$ -
Notes payable	38,414	-
Due to debt service fund	33,217	-
Other accrued expenses	31,765	-
Total liabilities	153,146	-
Fund Balances		
Restricted for debt service	-	228,803
Unreserved:		
Undesignated	17,926	-
Total liabilities and fund balances	$ 171,072	$ 228,803

See accompanying notes to financial statements

HILLSDALE PREPARATORY SCHOOL

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2009
See Independent Auditor's Report

Amounts reported for governmental activities in the statement of net assets are different because:

Total Governmental Fund Balance	$ 246,729
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is $2,149,050 and the accumulated depreciation is $373,271.	1,775,779
Interest is not payable until due in governmental activities and, therefore, is not recorded in the funds.	(105,814)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(2,480,000)
Net Assets of Governmental Activities	$ (563,306)

See accompanying notes to financial statements

HILLSDALE PREPARATORY SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
See Independent Auditor's Report

	General	Debt Service
Revenues		
Local sources	$ 24,907	$ 1,954
State sources	498,952	-
Federal sources	51,509	-
Total governmental fund revenues	575,368	1,954
Expenditures		
Basic programs	186,061	-
Pupil support	821	-
Instructional staff	11,215	-
General administration	15,851	-
Executive administration	68,264	-
Building administration	88,199	-
Business services	6,929	-
Operations and maintenance	67,786	-
Central services	6,934	-
Debt principal, interest and fees	3,928	168,954
Total governmental fund expenditures	455,988	168,954
Excess (deficiency) of revenues over expenditures	119,380	(167,000)
Other Financing Sources (Uses)		
Operating transfers in	-	95,171
Operating transfers out	(95,171)	-
Total other financing sources (uses)	(95,171)	95,171
Excess (deficiency) of revenues and other financing sources over expenditures and other (uses)	24,209	(71,829)
Fund balance - July 1, 2008	(6,283)	300,632
Fund balance - June 30, 2009	$ 17,926	$ 228,803

See accompanying notes to financial statements

HILLSDALE PREPARATORY SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
See Independent Auditor's Report

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds	$	(47,620)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Depreciation expense		(47,698)
The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:		
Payments on long-term debt		3,460
Change in Net Assets of Governmental Activities	$	(91,858)

See accompanying notes to financial statements

NOTE 1 - Summary of Significant Accounting Policies

The accounting policies of Hillsdale Preparatory School (the "Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Hillsdale Preparatory School, formerly Sauk Trail Academy, was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on June 5, 1996, and began operation in June 2001.

The Academy entered into a contract with the Hillsdale County Intermediate School District (HCISD) to charter a public school academy. The contract requires the Academy 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. The Hillsdale County Intermediate School District is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Hillsdale Intermediate School District three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2009 were approximately $14,700.

In September, 2007, the Academy entered into a five-year agreement with Choice Schools Associates, LLC (CSA). Under the terms of this agreement, CSA will provide a variety of services including oversight of administration and staff and coordinate the development of budgets and financial reports. The Academy is obligated to pay CSA ten percent of all state and federal revenue less the oversight fee charged by HCISD for the year ended June 30, 2009. Total paid for these services amounted to approximately $53,600.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school Academy. Based on application of criteria, the Academy does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy has elected to specify all of its funds as major.

NOTE 1 - Summary of Significant Accounting Policies - Continued

Basis of Presentation - Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

Governmental Funds

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Debt Service Fund - The debt service fund is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the curent period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.

b. Payments for inventoriable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.

c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.

d. The State of Michigan utilizes a foundation allowance funding approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and so recognized as revenue in accordance with state law. A major portion of the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon continued qualification for such aid.

Government-Wide Financial Statements

The government-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 primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general purpose revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general purpose revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Cash and Cash Equivalents

The Academy’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, accounting and financial reporting for certain investments and for external investment pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are at a short-term duration the rate of return is fixed and the academy intends to hold the investment until maturity. The Academy held no investments as of June 30, 2009. State statutes authorize the Academy to invest in bonds and other direct and certain in-direct obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal deposit Insurance Corporation, Federal Savings and Loan Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy also authorized to invest in U.S. Government or Federal agency obligation re-purchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

NOTE 1 - Summary of Significant Accounting Policies - Continued

Receivables

Receivables at the balance sheet date consist primarily of state school aid due from the State of Michigan. All receivables are expected to be fully collected and are considered current for the purposes of these basic financial statements.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy follows the policy of not capitalizing assets with a cost of less than $5,000, and a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	50 years
Furniture and equipment	5 - 20 years
Computers and software	5 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

NOTE 1 - Summary of Significant Accounting Policies - Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - Stewardship, Compliance and Accountability

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan law.

Annual budgets are adopted on the consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan law. The Academy is required by law to adopt a general fund budget. During the year ended June 30, 2009 the budget was amended in a legally permissible manner.

The budget statement (budgetary comparison schedule - all governmental funds) is presented on the combined statement of revenue, expenditures, and fund balances. Budget overruns are as follows:

	Budget	Actual
General Fund		
Executive administration	$ 67,566	$ 68,264

NOTE 3 - Deposits and Investments

As of June 30, 2009, the Academy had the following investments.

Type	S&P Rating	Maturities	Carrying Value
Deposits:			
Demand deposits			$ 45,092
Investments:			
U.S. Treasury and agency obligations	AAAm	Various	195,586
Total deposits and investments			$ 240,678
Deposits:			
Cash - Academy wide			$ 45,092
Investments:			
Investments - Debt service			195,586
Total deposits and investments			$ 240,678

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2009, the Academy's investments were rated AAAm by Standards & Poor's and Aaa by Moody's Investors Service.

NOTE 3 - Deposits and Investments - Continued

Concentration of Credit Risk

The district will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the Academy's investments are in investment pools which represents 100% of the Academy's total investments.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2009, all of the Academy's cash was fully covered by federal deposit insurance.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

NOTE 4 - Due From Other Governmental Units

Amounts owed from governmental units and other consist of the following:

State sources	$	69,312
Federal sources		56,668
Total	$	125,980

NOTE 5 - Capital Assets and Depreciation

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2008	Additions	Balance June 30, 2009
Land (non-depreciable)	$ 100,000	$ -	$ 100,000
Building	1,950,503	-	1,950,503
Computers	42,243	-	42,243
Equipment and furniture	56,304	-	56,304
Subtotal	2,149,050	-	2,149,050
Accumulated depreciation	325,573	47,698	373,271
Net book value of assets	$ 1,823,477	$ (47,698)	$ 1,775,779

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 - Notes Payable

The Academy has obtained a business loan from a local financial institution amounting to $150,000 for the year ended June 30, 2009. The loan was issued to provide the Academy with funds to finance school operations at the beginning of the fiscal year. The loan bears interest at 8.5% and security is provided through future state school aid payments. The amount outstanding on the loan at June 30, 2009 was $38,414 and was paid in full, August 2009.

NOTE 7 - Accrued Expenses

Amounts accrued at year end consist of the following:

	Net Assets	Funds
Interest	$ 105,814	$ -
Purchased services	31,765	31,765
Total accrued expenses	$ 137,579	$ 31,765

NOTE 8 - Long-Term Obligations Payable

The following is a summary of long-term obligations for the Academy for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Retirements and Payments	Balance June 30, 2009	Due Within One Year
Capital lease	$ 3,460	$ -	$ 3,460	$ -	$ -
Certificates of participation	2,480,000	-	-	2,480,000	2,480,000
Total	$ 2,483,460	$ -	$ 3,460	$ 2,480,000	$ 2,480,000

The Academy has issued Certificates of Participation bearing interest at an average rate of 6% through the year ended June 30, 2031. The obligations require semi-annual interest payments due on December 1st and June 1st and an annual payment of principal due on June 1st beginning in 2005. The certificates are collateralized by a mortgage on the Academy's facility as well as a pledge for 20% of State School Aid payments and investments held in trust for debt service. Currently the above mentioned certificates are in default and therefore are classified as current.

The following are maturities of long-term obligations principal and interest for the next year:

	Principal	Interest
2010	$ 2,480,000	$ -

NOTE 9 - Interfund Transfers

During the normal course of the school year the Academy transferred amounts between its two major funds as follows:

	General	Debt Service
Transfers In	$ -	$ 95,171
Transfers Out	95,171	-

As stipulated by the Academy's Certificates of Participation as described in Note 8, the Academy must transfer 20% of its state aid to a trustee. The trustee retains the required portion needed for debt service and returns the remainder to the Academy. This accounts for the major activity in the Academy's interfund transfer account.

NOTE 10 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 11 - Going Concern

The Academy's financial statements have been prepared assuming the Academy will continue as a going concern.

A forbearance agreement has been approved as of August 24, 2006 between the school and its bondholders regarding the indebtedness of the school building and has, as of the date of these financial statements, expired. Discussions and negotiations regarding refinancing options are ongoing but uncertain.

The Academy's fund balance was in a deficit position during the year ended June 30, 2008. As such the Academy was required to file a deficit elimination program with the Michigan Department of Education that will result in a positive fund equity within two years. The fund balance as of June 30, 2009 has returned to a positive level.

Croskey, Lanni & Company, PC
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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors
of Hillsdale Preparatory School

We have audited the accompanying basic financial statements of Hillsdale Preparatory School for the year ended June 30, 2009. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Hillsdale Preparatory School. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Croskey, Lanni & Company, PC

Croskey, Lanni & Company, P.C.

August 7, 2009
Rochester, Michigan

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HILLSDALE PREPARATORY SCHOOL

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
See Independent Auditor's Report on Supplemental Information

	General Fund		
	Original Budget	**Final Budget**	**Actual**
Revenues			
Local sources	$ 17,900	$ 14,990	$ 24,907
State sources	539,060	506,495	498,952
Federal sources	19,997	45,615	51,509
Total governmental fund revenues	576,957	567,100	575,368
Expenditures			
Basic programs	192,500	187,700	186,061
Pupil support	2,000	1,200	821
Instructional staff	2,824	11,352	11,215
General administration	15,851	15,851	15,851
Executive administration	70,451	67,566	68,264
Building administration	93,500	88,800	88,199
Business services	8,000	8,180	6,929
Operations and maintenance	65,450	68,888	67,786
Central services	9,252	7,752	6,934
Debt principal, interest and fees	4,100	3,950	3,928
Total governmental fund expenditures	463,928	461,239	455,988
Excess (deficiency) of revenues over expenditures	113,029	105,861	119,380
Other Financing Sources (Uses)			
Operating transfers out	(106,638)	(99,470)	(95,171)
Excess of revenues and other financing sources over expenditures and other uses	6,391	6,391	24,209
Fund balance - July 1, 2008	(6,283)	(6,283)	(6,283)
Fund balance - June 30, 2009	$ 108	$ 108	$ 17,926

HILLSDALE PREPARATORY SCHOOL

SCHEDULE OF REVENUES - ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
See Independent Auditor's Report on Supplemental Information

	General	Debt Service
Local Sources		
Interest	$ -	$ 1,954
Rental income	14,390	-
Miscellaneous	10,517	-
Total local sources	24,907	1,954
State Sources		
At risk	9,390	-
State aid	489,562	-
Total state sources	498,952	-
Federal Sources		
REAP grant	12,980	-
ARRA	26,216	-
Title IIA	12,313	-
Total federal sources	51,509	-
Total governmental fund revenues	$ 575,368	$ 1,954

HILLSDALE PREPARATORY SCHOOL

SCHEDULE OF EXPENDITURES - ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
See Independent Auditor's Report on Supplemental Information

	General	Debt Service
Basic Programs		
Purchased services - salaries	$ 154,843	$ -
Purchased services - payroll taxes	15,985	-
Teaching supplies and materials	12,553	-
Capital outlay - nondepreciable	2,680	
Total basic programs	186,061	-
Pupil Support	821	-
Instructional Staff	11,215	-
General Administration		
Dues and fees	724	-
Professional services	15,127	-
Total general administration	15,851	-
Executive Administration		
Management fees	53,577	-
Oversight fees	14,687	-
Total executive administration	68,264	-
Building Administration		
Purchased services - salaries	73,103	-
Purchased services - payroll taxes	8,308	-
Equipment lease	2,295	-
Office supplies	3,245	-
Postage	1,248	-
Total building administration	88,199	-

HILLSDALE PREPARATORY SCHOOL

SCHEDULE OF EXPENDITURES - ALL GOVERNMENTAL FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2009
See Independent Auditor's Report on Supplemental Information

	General	Debt Service
Business Services	6,929	-
Operations and Maintenance		
Purchased services - salaries	8,905	-
Purchased services - payroll taxes	1,290	-
Liability insurance	3,211	-
Repair and maintenance	17,075	-
Supplies and materials	2,015	-
Utilities	35,290	-
Total operations and maintenance	67,786	-
Central Services	6,934	-
Debt Principal, Interest and Fees	3,928	168,954
Total governmental fund expenditures	$ 455,988	$ 168,954

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
with *Government Auditing Standards*

To the Board of Directors
of Hillsdale Preparatory School

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Preparatory School as of and for the year ended June 30, 2009, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated August 7, 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 Hillsdale Preparatory School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hillsdale Preparatory School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hillsdale Preparatory School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Hillsdale Preparatory School'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 Standard*s.

This report is intended solely for the information and use of management, the board of directors, the Michigan Department of Education, and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.

Croskey, Lanni & Company, PC

Croskey, Lanni & Company, P.C.

August 7, 2009
Rochester, Michigan