

Nataki Talibah
Schoolhouse of Detroit
(A Michigan Public School Academy)
Financial Statements
For the Year Ended
June 30, 2011



The Clairmount Group, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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Report of Independent Accountants

To the Board of Directors of
Nataki Talibah Schoolhouse of Detroit

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nataki Talibah Schoolhouse of Detroit as of and for the year ended June 30, 2011 which collectively comprise the Public School Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Nataki Talibah Schoolhouse of Detroit's management. Our responsibility is to express an opinion on these basic 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 misstatements. 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 basic financial statements referred to above present fairly, in all material respect, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Nataki Talibah Schoolhouse of Detroit as of June 30, 2011, 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.

The management's discussion and analysis and budgetary comparison schedule are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted 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 opinions of the financial statements that collectively comprise Nataki Talibah Schoolhouse of Detroit's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has 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.

In accordance with Governmental Auditing Standards, we have also issued a report dated October 4, 2011 on our consideration of Nataki Talibah Schoolhouse of Detroit's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

The Clairmount Group, PLC

October 4, 2011

Nataki Talibah Schoolhouse of Detroit

Management Discussion and Analysis For the Year Ended June 30, 2011

The Management Discussion and Analysis is intended to be the Nataki Talibah Schoolhouse of Detroit (the "Academy") Management's discussion and analysis of the financial results for the year ended June 30, 2011. The intent of this discussion and analysis is to provide a look at the Academy's performance and current position. Readers should also review the notes to the financial statements and financial statements to enhance their understanding of the Academy's financial performance.

Using the Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (academy-wide statements), and then proceed to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements.

Reporting on the Academy as a Whole – Academy-Wide Financial Statements

One of the most important questions asked about the Academy's finances is, "Is the Academy better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Academy as a whole and about its activities in a manner to help address this question. These statements include all assets and liabilities of the Academy using the accrual basis of accounting similar to the accounting used by the private sector. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid. The two statements report the Academy's net assets and any changes in them. The change in net assets provides the reader a tool to assist in determining whether the Academy's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as state aid foundation grant, political conditions on a State level, student enrollment growth, quality of local service, and facility improvements prior to arriving at any conclusion regarding the overall health of the Academy.

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

The fund financial statements provide detailed information about the most significant funds, not the Academy as a whole. Some funds are required to be established by state law and by debt covenants. However, the Academy establishes many other funds to help it control and manage money for a particular purpose (the Food Services and Athletic Funds are examples) or to show that it is meeting legal responsibilities for using grant and other money. The governmental funds of the Academy use the following accounting approach:

Government Funds - Most of the Academy's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be converted to cash. The governmental fund statements provide a detailed short term view of the Academy's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the Academy's programs. The relationship (or differences) between governmental funds is reconciled in the basic financial statements.

The Academy as a Whole

Table 1 provides a comparative summary of the Academy's net assets as of June 30, 2011 and 2010

Table 1

	Governmental Activities	
	June 30	
	2011	2010
Assets		
Current and other assets	\$ 1,097,289	\$ 1,042,146
Capital assets	4,143,289	3,955,169
Non-current assets	842,144	802,102
Total assets	6,082,722	5,799,417
Liabilities		
Current liabilities	657,869	417,310
Long-term liabilities	6,120,000	6,275,000
Total liabilities	6,777,869	6,692,310
Net Assets		
Invested in property and equipment - Net of related debt	(1,524,668)	(1,642,222)
Restricted	412,475	369,861
Unrestricted	417,046	379,426
Total net assets	<u>\$ (695,147)</u>	<u>\$ (892,935)</u>

Net assets at year-end were \$(694,147). The Academy investment in capital assets, net of related debt was \$(1,524,668). The restricted net assets of \$412,475 are restricted to the debt service and capital projects funds. The remaining unrestricted balances of \$417,046 represent the cumulative operating results for the year ended June 30, 2011 and all prior years.

The Academy as a Whole (continued)

The results of this year's operations for the Academy as a whole are represented in a statement of activities (Table 2), which shows the changes in net assets for the fiscal year 2011 and 2010

Table II

	<u>Governmental Activities</u>	
	<u>Year Ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Revenue		
Program revenue:		
Charges for services	\$ 30,957	\$ 61,205
Federal Grants and entitlements	572,021	574,534
State categorical	130,322	164,207
General revenue:		
State foundation allowance	<u>2,916,995</u>	<u>2,901,657</u>
Total revenue	3,650,295	3,701,603
Functions/Program Expenses		
Instructions	1,618,774	1,398,719
Support Services	1,270,679	1,364,209
Athletics	-	2,246
Food services	123,374	123,405
After-School program	25,475	50,558
Interest and charges on long-term debt	281,049	447,770
Depreciation and amortization (unallocated)	<u>133,156</u>	<u>131,866</u>
Total functions/program expenses	<u>3,452,507</u>	<u>3,518,773</u>
Increase in Net Assets	<u>\$ 197,788</u>	<u>\$ 182,830</u>

The Academy's net assets increased by \$197,786 during the fiscal year ended June 30, 2011 as shown in the Table II. The costs to operate the Academy's programs were \$3,452,509. The programs were partially funded by charges for services and grant revenue totaling \$603,443. The remaining costs of the Academy programs were funded primarily by state aid, totaling \$3,047,317. Additionally, costs were incurred for debt servicing of \$281,050 and depreciation expense of \$133,156.

Capital Assets

At June 30, 2011, the Academy had an investment in capital assets, net accumulated depreciation of \$4,143,289. This includes land, building, building improvements, buses, furniture and equipment.

Table III

	Balance July 1, 2010	Additions	Balance June 30, 2011
Land	\$ 403,980	\$ -	\$ 403,980
Equipment	627,436	52,976	680,412
Building and Additions	4,603,545	136,433	4,739,978
School Bus	44,643	-	44,643
Total Capital Assets	<u>5,679,604</u>	<u>189,409</u>	<u>5,869,013</u>
Less Accumulated Depreciation	<u>(1,592,568)</u>	<u>(133,156)</u>	<u>(1,725,724)</u>
Net Capital Assets	<u>\$ 4,087,036</u>	<u>\$ 56,253</u>	<u>\$ 4,143,289</u>

Debt

During the year ended June 30, 2008, the Academy issued \$6,415,000 in general obligation bonds to advance refund \$5,335,000 of outstanding debt. The proceeds were utilized to provide funds for the renovation, and equipping of the Academy's school facility and fund the escrow account for the advance refund of \$5,335,000 of bonds.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2007 Refunding Bonds	6,275,000	-	155,000	6,120,000	165,000
	<u>\$ 6,275,000</u>	<u>\$ -</u>	<u>\$ 155,000</u>	<u>\$ 6,120,000</u>	<u>\$ 165,000</u>

General Fund Budget Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law request that the budget is 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 as part of the required supplemental information of these financial statements.

During the prior 2009 – 2010 fiscal year the Academy hired a full-time School Accountant to manage the budget, and ensure that the proper procedures were in place to keep the expenditures under appropriations. The 2009 – 2010 fiscal year was the first fiscal year in the last three years that the Academy was not in violation of the Uniform Budget and Accounting Act.

During the 2010 – 2011 fiscal year it was our goal to continue that trend. For the 2010 – 2011 fiscal year despite a decrease in funding and lower enrollment, the Academy was still able to increase the General Fund's fund balance. The Academy will continue to follow the procedures previously put in place to ensure that each year the Academy improves its financial position in the midst of an uncertain economic environment.

Economic Factors and Next Year's Budgets and Rates

The Academy's administration and Board of Directors ("the Board") consider many factors in the budget process. One of the most important factors affecting the budget is student enrollment. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2011 fiscal year is 25 percent and 75 percent of the February 2010 and September 2010 student counts, respectively. Approximately 80 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Under State Law, the Academy cannot assess property taxes to fund general operations. As a result, the Academy revenue heavily depended 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 school districts. The sate periodically holds a revenue estimating conference to forecast revenues.

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 questions about this report or need additional information, we welcome you to contact the business office (313) 531-3720 located at 19176 Northrop, Detroit, Michigan 48219.

Nataki Talibah Schoolhouse of Detroit
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 530,312
Due from Other Governmental Units	566,977
Capital Assets - Net depreciation	4,143,289
Deferred Loss on Bond Issuance	<u>842,144</u>
Total assets	<u><u>\$6,082,722</u></u>
Liabilities	
Accounts payable	\$ 39,360
State aid anticipation loans	184,625
Deferred revenue	43,784
Bond interest payable	390,100
Long-Term Liabilities	
Due within one year	165,000
Due in more than one year	<u>5,955,000</u>
Total liabilities	<u>6,777,869</u>
Net Assets	
Investments in Capital Assets - Net of related debt	(1,524,668)
Restricted	
Debt service	368,660
Capital projects	32,125
Other	11,690
Unrestricted	<u>417,046</u>
Total Net Assets(Deficit)	<u><u>\$ (695,147)</u></u>

The accompanying notes are an integral part of these financial statements

Nataki Talibah Schoolhouse of Detroit
Statements of Activities
Year Ended June 30, 2011

Functions/Programs	<u>Expenses</u>	Program Revenues		Governmental Activities Net(Expenses) and Changes in Net Assets
		Charges for Services	Operating Grants/ Contributions	
Primary government - Government activities				
Instruction	\$ 1,618,774	\$ -	\$ 87,359	(1,531,415)
Support services	1,270,679	-	378,604	(892,075)
Food Services	123,374	7,035	106,058	(10,281)
After-school program	25,475	23,922	-	(1,553)
Interest and charges on long-term debt	281,049	-	-	(281,049)
Depreciation (unallocated)	133,156	-	-	(133,156)
Total governmental activities	<u>\$ 3,452,507</u>	<u>\$ 30,957</u>	<u>\$ 572,021</u>	\$ (2,849,529)
General Revenues:				
				<u>3,047,317</u>
State aid not restricted to specific purposes				
				197,788
				(892,934)
				<u>\$ (695,146)</u>

The accompanying notes are an integral part of these financial statements

Nataki Talibah Schoolhouse of Detroit
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Capital Projects Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Government Funds
Assets					
Cash and investments	\$ 129,527	\$ 32,125	\$ 368,660	\$ -	\$ 530,312
Due from Other Governmental Units	566,977	-	-	-	566,977
Due from Other Funds	-	-	-	11,690	11,690
Total assets	<u>\$ 696,504</u>	<u>\$ 32,125</u>	<u>\$ 368,660</u>	<u>\$ 11,690</u>	<u>\$ 1,108,979</u>
Liabilities					
Accounts payable	\$ 39,360	\$ -	\$ -	\$ -	\$ 39,360
Deferred revenue	43,784	-	-	-	43,784
State aid anticipation note	184,625	-	-	-	184,625
Due to other funds	11,690	-	-	-	11,690
Total liabilities	<u>279,459</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>279,459</u>
Fund Balances					
Restricted	-	32,125	368,660	-	400,785
Unassigned	417,045	-	-	11,690	428,735
Total fund balance	<u>417,045</u>	<u>32,125</u>	<u>368,660</u>	<u>11,690</u>	<u>829,520</u>
Total liabilities and fund balances	<u>\$ 696,504</u>	<u>\$ 32,125</u>	<u>\$ 368,660</u>	<u>\$ 11,690</u>	<u>\$ 1,108,979</u>

The accompanying notes are an integral part of these financial statements

**Nataki Talibah Schoolhouse of Detroit
Reconciliation of the Balance Sheet of
Governmental Funds Balance
To the Statement of Net Assets
June 30, 2011**

Fund Balance - Total governmental funds \$ 829,520

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

Capital assets used in governmental activities are not financial resources and are not reported in governmental funds

Cost of capital assets	5,869,013	
Accumulated depreciation	<u>(1,725,724)</u>	4,143,289

Long-term liabilities are not due and payable in the current period and are not reported in the governmental fund

Bonds payable	(6,120,000)
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Accrued interest payable is not included as a liability in Governmental Funds

(390,100)

Deferred loss on bond Issuance are amortized over the life of the Bond Issue in the Governmental Activities

<u>842,144</u>

Net Assets - Governmental activities

<u>\$ (695,147)</u>

The accompanying notes are an integral part of these financial statements

**Nataki Talibah Schoolhouse of Detroit
Statement of Revenues, Expenditures,
And Changes in Fund Balances
Year Ended June 30, 2011**

	General Fund	Capital Projects	Debt Services Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Local sources	\$ 87,359	\$ -	\$ 4	\$ 30,957	\$ 118,320
State sources	3,047,317	-	-	-	3,047,317
Federal sources	378,604	-	-	106,058	484,662
Total revenue	<u>3,513,280</u>	<u>-</u>	<u>4</u>	<u>137,015</u>	<u>3,650,298</u>
Expenditures					
Current					
Instruction	1,618,774	-	-	-	1,618,774
Support services	1,270,679	-	-	-	1,270,679
After school	-	-	-	25,475	25,475
Food services	-	-	-	123,374	123,374
Debt service					
Interest	-	-	394,944	-	394,944
Principal	-	-	155,000	-	155,000
Other costs	-	-	3,112	-	3,112
Facility acquisitions	-	117,108	-	-	117,108
Total expenditures	<u>2,889,453</u>	<u>117,108</u>	<u>553,056</u>	<u>148,849</u>	<u>3,708,466</u>
Excess of Revenue Over(Under) Expenditures	623,827	(117,108)	(553,052)	(11,835)	(58,167)
Other Financing Sources (Uses)					
Transfers in	5,290	119,108	586,563	8,500	719,461
Transfers out	(591,499)	(7,072)	(120,890)	-	(719,461)
Total other financing sources (uses)	(586,209)	112,036	465,673	8,500	-
Net Change in Fund Balances	37,618	(5,072)	(87,379)	(3,335)	(58,168)
Fund Balances - Beginning of year	<u>379,427</u>	<u>37,197</u>	<u>456,039</u>	<u>15,025</u>	<u>887,688</u>
Fund Balances - End of year	<u>\$ 417,045</u>	<u>\$ 32,125</u>	<u>\$ 368,660</u>	<u>\$ 11,690</u>	<u>\$ 829,520</u>

The accompanying notes are an integral part of these financial statements

**Nataki Talibah Schoolhouse of Detroit
Reconciliation of the Governmental Fund Statement of Revenues,
Expenditures and Changes in Fund Balance with
The Academy-Wide Statement of Activities
Year Ended June 30, 2011**

Net Change in Fund Balance - Total governmental funds \$ (58,168)

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

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation or amortization:

Bond repayment		
Depreciation and amortization expense	(133,156)	
Capitalized capital outlay	<u>117,108</u>	(16,048)

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		386,962
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Repayment of principal on long-term debt are expenditures in the governmental funds, but not in the statement of activities where they are reductions of liabilities		(155,000)
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Unamortized Loss on Bond Issuance are shown as Expenditures in the Governmental Funds, but are allocated over the Life of the Issuance in the Statement of Activities		<u>40,042</u>
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Change in Net Assets of Governmental Activities \$ 197,788

The accompanying notes are an integral part of these financial statements

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Nataki Talibah Schoolhouse of Detroit (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of significant accounting policies and procedures used by the Academy:

Reporting Entity

The Academy was formed as a charter 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. 415 of the Public Acts of 1994.

On August 29, 1995, the Academy entered into an initial five-year contract with the Central Michigan University Board to charter a public school academy, which was subsequently extended through 2012. 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 Central Michigan University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the charter contract and all applicable laws. The Academy pays the Board of Trustees three-percent of state foundation allowance as administrative fees. The total administrative fees for the year ended June 30, 2011, to the Central Michigan University Board of Trustees, was approximately \$88,609.

The accompanying basic 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 operational or financial relationships with the public school academy. Based on application of the criteria, the entity does not contain component units.

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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered 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. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of particular functions.

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011(continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements – The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, 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 included (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.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected 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. Generally, expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be 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 Debt Service Fund is used to record transfers from the General Fund and interest revenue and the payments of interest, principal, and other expenditures on long-term debt.

The Capital Projects Fund is used to record long-term debt proceeds or other revenue and disbursements of monies specifically designed for acquiring new school sites, buildings, and equipment and for major remodeling. The fund is retained until the purpose for which the fund was created has been accomplished.

Additionally, the Academy reports the following fund types:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specific purposes. The Academy's Special Revenue Funds include Food Services. Any operating deficit generated by these activities is the responsibility of the General Fund.

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011 (continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” All receivables are shown net of an allowance for uncollectible amounts. The receivable balance at June 30, 2011 represents amounts due to the Academy from the State of Michigan. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Capital Assets – Capital assets, which include land, building and building additions, transportation equipment, furniture, and equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The Academy does not have infrastructure-type assets.

Building, furniture and equipment and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	39 years
Furniture and equipments	7-10 years
Vehicles – Bus	5 years

Long-term Obligations – In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize long-term debt premiums and discounts, as well as long-term debt issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011 (continued)

Assets, Liabilities, and Net Assets or Equity (continued)

Fund Equity – In the fund financial statements, governmental funds reports fund balance as either Nonspendable, Restricted or Unassigned. The new categories and related definitions are:

Nonspendable – Includes amounts either not in spendable form or legally or contractually required to be maintained intake.

Restricted – Reflects the same definition as restricted net assets: constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds, debt service funds and cafeteria and center program funds funded with federal program dollars.

Committed – Includes amounts that are committed for specific purposes by formal action of the board. Amounts classified as “committed” are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the board removes or changes the limitation by taking the same form of action it employed to previously impose the limitation.

Assigned – Amounts that are intended by the Academy to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the board. This would include any activity reported in a fund other than the General Fund that is not otherwise restricted more narrowly by the above definitions.

Unassigned – Includes any remaining amounts after applying the above definitions, Planned spending in the subsequent year’s budget would be included here and can no longer be described as “designated” unless formally committed or assigned.

Comparative Data/Reclassifications – Comparative data is not included in the Academy’s financial statements.

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011 (continued)

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General, Special Revenue and Debt service funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services received.

During the year, the Academy incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

General Fund	Final Budget	Actual	Over Budget
Basic programs	1,293,275	1,309,220	15,945
Instructional	201,949	209,949	8,000
School administration	266,132	266,353	221
Business services	101,781	128,060	26,279

Note 3 – Deposits and Investments

State statues authorize the Academy to make deposits in the accounts of federally insured bank, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investments pools that are composed of authorized investments vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated three banks for deposits of its funds.

The Academy's deposits consist solely of checking and/or savings accounts at local banks, money market funds invested in U.S. Treasury obligations, and U.S. government agency notes. The Academy has not adopted a formal investment policy. The Academy's cash and investments are subject to several types of risk, which are examined in more detail below.

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011 (continued)

Note 3 – Deposits and Investments (continued)

Custodial Credit Risk and Bank Deposits –

Custodial credit risk is the risk that in the event of a bank failure, the Academy’s deposits may not be returned to it. The Academy’s investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for its deposits. At year end, the Academy’s deposit balance of \$151,597.

Custodial Credit Risk of Investments –

Custodial credit risk 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 investment or collateral securities that are in the possession of an outside party. The Academy minimizes custodial credit risk by limiting investments to bank investment pools invested in U.S. Treasury obligations and U.S. government agency notes. Further, the Academy pre-qualifies each financial institution with which it will do business. At year end, the Academy’s investments consisted of a bank investment pool invested in U.S. Treasury obligations in the amount of \$398,940 of which are uninsured and unregistered. All investments are held through U.S. Bank Corporate Trust Services.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Academy limits interest rate risk by investing in only U.S. Treasury obligations and U.S. government agency notes.

Note 4 – Interfund Transfers –

The composition of interfund transfers is as follows:

	Transfers out				Total
	General Fund	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	
Transfers in:					
General Fund	\$ -	\$ -	\$ 3,508	\$ -	\$ 3,508
Debt Service	586,564	-	-	-	586,564
Capital projects	-	120,890	-	-	120,890
Other Nonmajor Governmental Funds	8,500	-	-	-	8,500
Net Capital Assets	<u>\$ 595,064</u>	<u>\$ 120,890</u>	<u>\$ 3,508</u>	<u>\$ -</u>	<u>\$ 719,462</u>

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011 (continued)

Note 5 – Capital Assets

Capital asset activity of the Academy’s governmental activities is as follows:

	Balance <u>July 1, 2010</u>	Additions	Balance <u>June 30, 2011</u>
Land	\$ 403,980	\$ -	\$ 403,980
Equipment	627,436	52,976	680,412
Building and Additions	4,603,545	136,433	4,739,978
School Bus	44,643	-	44,643
Total Capital Assets	<u>5,679,604</u>	<u>189,409</u>	<u>5,869,013</u>
Less Accumulated Depreciation	<u>(1,592,568)</u>	<u>(133,156)</u>	<u>(1,725,724)</u>
Net Capital Assets	<u>\$ 4,087,036</u>	<u>\$ 56,253</u>	<u>\$ 4,143,289</u>

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

Note 6 – Lease Commitments

The Academy has entered into lease agreements for use of equipment. Management expects that, when each lease expires, it will be renewed or replace with another lease agreement. Lease expense during the year end was \$33,915. At year end, the minimum rental commitments under the leases are as follows:

Fiscal Year <u>Ending</u>	Lease <u>Commitments</u>
2012	\$ 29,964
2013	29,964
2014	29,964
2015	6,243
	<u>\$ 96,135</u>

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011 (continued)

Note 7 –Management Company Fee

The Academy entered into a management agreement effective through June 30, 2012 for a variable fee equal to 8.5% of the net school aid revenues. The Management company is responsible for all of the management, operation, administration and education of the Academy. The Academy subcontracts all employees from the management company and reimburses the management company for operating costs. The Academy incurred management fees totaling \$242,094 for the year ended June 30, 2011.

Note 8 – Long-term Debt

The following is a summary of long-term debt obligations for the Academy for the Year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2007 Refunding Bonds	6,275,000	-	155,000	6,120,000	165,000
	<u>\$ 6,275,000</u>	<u>\$ -</u>	<u>\$ 155,000</u>	<u>\$ 6,120,000</u>	<u>\$ 165,000</u>

During the year ended June 30, 2008, the Academy issued \$6,415,000 in general obligation bonds with an average interest rate of 6.41% to advance refund \$5,335,000 of outstanding debt with an average rate of 8.35%. The net proceeds after paying underwriting fees, insurance and other issuance costs of \$339,236, along with \$529,307 from the debt service fund were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded general obligation bonds. As a result, the refunded bonds are considered to be defeased, and the liability for those participation notes have been removed from the accompanying statement of net assets.

As part of the advance refunding, the Academy was required to establish a Reserve Fund. The Reserve Fund established separate trust accounts designated as the “Academy Funded Reserve Account” and the “Authority Funded Reserve Account.” The “Academy Funded Reserve Account” was funded by proceeds from the bond issuance. While the “Authority Funded Reserve Account” was funded by a contribution of \$500,000 from the Michigan Public Educational Facilities Authority (“MPEFA”). Accordingly, there is no amount obligated to the MPEFA as the funds were place with the trust agent. An addition, earnings realized from investments of moneys are to be released to MPEFA.

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011 (continued)

Note 8 – Long-term Debt (continued)

The Academy advance refunded the full term certificate to reduce its ongoing debt service cost by \$300,714 and obtained an economic gain (i.e. difference between the present value of the debt service payments on the old and new debt) of \$305,253.

Annual debt service requirements to maturity for the above 2007 Refunding bond are as follows:

	Governmental Activities		
	Principal	Interest	Total
2011	165,000	390,100	555,100
2012	170,000	379,788	549,788
2013	180,000	374,475	554,475
2014	190,000	363,538	553,538
2015	205,000	351,971	556,971
2016-2020	1,235,000	1,558,313	2,793,313
2021-2025	1,665,000	1,134,116	2,799,116
2026-2030	2,310,000	557,213	2,867,213
Total	<u>\$ 6,120,000</u>	<u>\$ 5,109,514</u>	<u>\$ 11,229,514</u>

Deferred Loss on Bond Issuance – The loss on bond issuance of \$880,945 (proceeds of \$6,215,945 deposited with escrow agent less \$5,335,000 outstanding balance on defeased bonds) is being amortized over the weighted average life remaining on the defeased bonds. Amortization expense incurred as of year end was \$40,042.

Note 9 – State Aid Anticipation Note

During the fiscal year, the Academy borrowed \$453,650 and \$140,000 in state aid anticipation notes. The notes bore an interest at 3.04% and 2.75%, respectively. The outstanding amount as of June 30, 2011 was \$184,625. The notes were paid in full subsequent to year end.

Note 10 – Risk Management

The Academy is exposed to various risk of loss related to property loss, torts, error and omission, employee injuries (workers' compensation), as well as medical benefits provided to the employees. The risk of employee injuries and medical benefits for employees of the Management company is covered by insurance held by the Management company (see Note 7). The Academy has purchased commercial insurance for all of the claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage since inception.

Nataki Talibah Schoolhouse of Detroit
Notes to Financial Statements
June 30, 2011 (continued)

Note 11 – A-133 Requirement

The Academy expended \$443,503 in federal funds for the year ended June 30, 2011, which is less than the \$500,000 threshold required for the Academy to have an audit performed in accordance with Circular OMB A-133 guidelines. Therefore, the Academy was not required to have an A-133 audit performed for the year ended June 30, 2011.

Note 12 – Subsequent Events

Subsequent events have been evaluated through October 4, 2011, which is the date the financial statements were available to be issued. Events occurring after the date have not been evaluated to determine whether a change in financial statements would be required.

Required Supplemental Information

**Nataki Talibah Schoolhouse of Detroit
General Fund
Statement of Revenues, Expenditures, Other Sources (Uses)
And Changes in Fund Balances
Budget and Actual**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 45,150	\$ 82,000	\$ 87,359	\$ 5,359
State sources	3,007,085	3,043,778	3,047,317	3,539
Federal sources	460,177	422,387	378,604	(43,783)
Total revenue	3,512,412	3,548,165	3,513,280	(34,885)
Expenditures				
Current				
Instruction:				
Basic programs	1,250,439	1,293,275	1,309,220	15,945
Added needs	223,744	404,571	309,554	(95,017)
Support services:				
Pupil	74,753	77,347	72,025	(5,322)
Instructional	138,925	201,949	209,949	8,000
General administration	357,801	377,182	367,463	(9,719)
School administration	250,135	266,132	266,353	221
Business services	183,234	101,781	128,060	26,279
Operation and maintenance	201,745	221,825	218,067	(3,758)
Pupil transportation and services	11,531	3,575	3,511	(64)
Suppor Services - Central	9,000			
Community Services	21,000	6,000	5,251	(749)
Total expenditures	2,722,307	2,953,637	2,889,453	(64,183)
Other Financing Sources(Uses)				
Transfers In	-	3,600	5,290	1,690
Transfers Out	(629,679)	(593,000)	(591,499)	1,501
	(629,679)	(589,400)	(586,209)	3,191
Net Change in Fund Balance	160,426	5,128	37,618	32,489
Fund Balance - July 1, 2010	238,456	379,427	379,427	-
Fund Balance - June 30, 2011	\$ 398,882	\$ 384,555	\$ 417,045	\$ 32,489

Other Supplemental Information

**Nataki Talibah Schoolhouse of Detroit
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

	<u>Special Funds</u>
	Food Services
	<u> </u>
Assets	
Cash and cash equivalents	\$ -
Due from other funds	11,690
Total assets	<u>\$ 11,690</u>
Liabilities	
Accounts payable	\$ -
Due to other funds	-
Total liabilities	<u> -</u>
Fund Balances	
Unreserved	11,690
Total liabilities and fund balance	<u>\$ 11,690</u>

**Nataki Talibah Schoolhouse of Detroit
Combining Statement of Revenues,
Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2011**

	Special Revenue Funds		
	Food Services	After-school	Total
Revenue			
Local sources	\$ 7,035	\$ 23,922	\$ 30,957
Federal sources	106,058	-	106,058
Total revenues	<u>113,093</u>	<u>23,922</u>	<u>137,015</u>
Expenditures			
Athletic	-	-	-
Bookstore	-	-	-
Food services	123,374	-	123,374
After-school	-	25,475	25,475
Total expenditures	<u>123,374</u>	<u>25,475</u>	<u>148,849</u>
Excess(Deficiency) of Revenue over Expenditures	(10,281)	(1,553)	(11,834)
Other Financing Sources -			-
Transfers in	6,946	1,553	8,499
Transfers out	-	-	-
Total Other Financing Sources	<u>6,946</u>	<u>1,553</u>	<u>8,499</u>
Net Changes in Fund Balances	(3,335)	-	(3,335)
Fund Balances - Beginning of year	<u>15,025</u>	<u>-</u>	<u>15,025</u>
Fund Balances - End of year	<u>\$ 11,690</u>	<u>\$ -</u>	<u>\$ 11,690</u>

**Nataki Talibah Schoolhouse of Detroit
Statement of Bonded Indebtedness
For the Year Ended June 30, 2011**

	<u>2007 Series Principal</u>	<u>2007 Series Principal</u>
2011	165,000	-
2012	170,000	-
2013	180,000	-
2014	190,000	-
2015	205,000	-
2016	215,000	-
2017	230,000	-
2018	245,000	-
2019	265,000	-
2020	280,000	-
2021	290,000	-
2022	310,000	-
2023	335,000	-
2024	-	355,000
2025	-	375,000
2026	-	405,000
2027	-	430,000
2028	-	460,000
2029	-	490,000
2030	-	525,000
	<u> </u>	<u> </u>
Total	<u>\$ 3,080,000</u>	<u>\$ 3,040,000</u>
Principal payments due	October 1	October 1
Interest payments due	Oct 1/Apr 1	Oct 1/Apr 1
Interest rate	6.25%	6.50%
Original issue	<u>\$ 3,375,000</u>	<u>\$ 3,040,000</u>



**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***

October 4, 2011

To the Board of Directors of
Nataki Talibah Schoolhouse of Detroit

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nataki Talibah Schoolhouse of Detroit as of and for the year ended June 30, 2011, which collectively comprise the Nataki Talibah Schoolhouse of Detroit's basic financial statements and have issued my report thereon dated October 4, 2011. 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 Nataki Talibah Schoolhouse of Detroit's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Nataki Talibah Schoolhouse of Detroit'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 Nataki Talibah Schoolhouse of Detroit'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 Nataki Talibah Schoolhouse of Detroit's financial statements that is more than inconsequential will not be prevented or detected by Nataki Talibah Schoolhouse of Detroit's internal control. We consider the deficiencies identified below to be significant deficiencies in 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 Nataki Talibah Schoolhouse of Detroit'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 and Other Matters

As part of obtaining reasonable assurance about whether Nataki Talibah Schoolhouse of Detroit'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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies, pass-through entities, the Michigan Department of Education, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

The Clairmount Group, PLC

October 4, 2011



October 5, 2011

To the Board of Directors of
Nataki Talibah Schoolhouse
of Detroit

In planning and performing our audit of the general purpose financial statements of Nataki Talibah Schoolhouse of Detroit (Nataki), for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Nataki'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 the Nataki's internal control. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Accordingly, we do not express an opinion on the effectiveness of the Nataki's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 a combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 consider the following deficiencies to be significant deficiencies in internal control.

Significant Deficiencies

Timeliness of Grant Requests

During our testing, we noted an instance of untimely requests of grant funds which the Academy requested ARRA Grant Funds greater than its immediate cash needs. Federal grant regulations require cash advances to a recipient organization are limited to the minimum amounts needed and are timed in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

We recommend that the Academy request funds as spent. The timing and amount of cash advances are to be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

Management Response

We will monitor the grant activity more closely and insure that all grant requests are made after the invoices have been paid for the expenses associated with that particular grant.

Tracking of Students Receiving Reduced Lunches

During the audit we noted that students receiving a reduced lunch are not properly tracked, it was difficult to assess that students entitled to a reduced lunch paid the reduced lunch rate. It was also noted that lunch applications were missing for free and reduced price household meal benefit applications sampled. The missing lunch applications were for students enrolled during the school year.

We recommend the establishment of a system to properly track free and reduced lunches, and the retention of all student lunch applications.

Management Response

Our school lunch staff has recently been trained by the State of Michigan on the regulations and laws that govern the school lunch program. A system has been put into place that will track the applications for both free and reduced lunch students. An application will be placed on file for every free and reduced lunch student that is participating in the school lunch program.

This report is intended solely for the information and use of the Nataki Talibah Schoolhouse of Detroit management, Board of Directors, the Michigan Departments of Treasury and Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

The Clairmount Group, PLC

October 5, 2011

