

DAVID ELLIS ACADEMY - WEST

**Financial Report
with Supplemental Information
and Single Audit Report
June 30, 2010**

DAVID ELLIS ACADEMY - WEST

CONTENTS

FINANCIAL STATEMENTS

Independent auditor's report	1 - 2
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	3 - 4
Management's discussion and analysis	5 - 9

BASIC FINANCIAL STATEMENTS

District-wide financial statements:	
Statement of net assets	10
Statement of activities	11
Fund financial statements:	
Governmental funds:	
Balance sheet	12
Reconciliation of the governmental funds balance to the statement of net assets	13
Statement of revenues, expenditures, and changes in fund balances	14
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities	15
Notes to financial statements	16 - 27

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary comparison schedule - general fund	28
--	----

OTHER SUPPLEMENTAL INFORMATION

Special Revenue Funds:	
Combining statement of revenues, expenditures, and changes in fund balance	29

SUPPLEMENTAL INFORMATION

Single Audit Report	Section A
---------------------	-----------

Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

645 GRISWOLD, SUITE 1812
DETROIT, MICHIGAN 48226
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
David Ellis Academy - West

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of David Ellis Academy - West as of and for the year ended June 30, 2010, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of David Ellis Academy - West'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 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 basic 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 David Ellis Academy - West as of June 30, 2010 and the respective changes in financial position, where applicable, thereof for the year ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors of
David Ellis Academy - West

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 29 are not required parts 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 on the financial statements that collectively comprise David Ellis Academy - West's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2010 on our consideration of David Ellis Academy - West's internal control structure and our tests of its compliance with certain provision of laws, regulations, contracts and grants. 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.

Wilkerson & Associate PC

October 11, 2010

Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

645 GRISWOLD, SUITE 1812
DETROIT, MICHIGAN 48226
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

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

To the Board of Directors of
David Ellis Academy - West

We have audited the financial statements of David Ellis Academy - West as of and for the year ended June 30, 2010, and have issued our report thereon dated October 11, 2010. 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 David Ellis Academy - West's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 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.

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 entity's internal control.

To the Board of Directors of
David Ellis Academy - West

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

This report is intended for the information and use of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Wilkerson & Associate PC

October 11, 2010

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

This section of David Ellis Academy – West's annual financial report presents discussion and analysis of the David Ellis Academy – West financial performance during the year ended June 30, 2010. It should be read in conjunction with the David Ellis Academy – West financial statements, which immediately follow this section.

Financial Highlights:

- The district had an increase in Fund Balance of \$1,105,254 for the 2009 – 2010 fiscal year.
 - Outlays for new capital assets were increased by \$55,291 for investments in equipment and furniture, and computer equipment.
- The District has total outstanding long-term debt of \$14,370,000.
- The District received a grant from the Perkins Malo Hunter Foundation of \$45,000.
- The District received a grant from the 21st Century Community Learning Center of \$96,200.

The financial report is only one measure of our school district's viability. Our goal is to provide services to students, not to generate profits as commercial entities do.

Consideration should also be given to the following non-financial factors:

- Received North Central Association Accreditation
- Earned a B rating on the State of Michigan's School Report Card
- MEAP scores increased in 10 of 15 testing areas
- Surpassed elementary math and ELA AYP targets
- Surpassed middle school math and ELA AYP targets
- Received Michigan Green Schools certification
- Implemented school-wide Response to Intervention program
- Implemented school-wide Character Education program
- Implemented student branch of Michigan First Credit Union
- Collaborated with Mobile Dentist
- Maintained enrollment of more than 790 students
- Decreased the number of disciplinary referrals
- Held a six week Summer Enrichment Program for at-risk students
- Held a MEAP Saturday Institute in September

- Expanded after school programming to include Global Psychological Services Tutoring, YMAC programming, and tennis
- Implemented NWEA standardized testing at all grade levels
- Received a \$45,000 donation from a philanthropic organization associated with the national Schools That Can Network
- Participated in the southeastern Michigan Science Olympiad
- Sponsored free Autumn Festival for K-5 students.
- Implemented teacher sponsored DEA Chorale
- Implemented teacher and parent sponsored groups: DEA Dads Club and M.A.P.S
- Traveled to Leelanau Peninsula for annual 5-8 spring camping trip
- Traveled to West Mammoth Cave National Park for middle school science fieldtrip; \$3,900 donation from Masters Commission and Sinai Grace Hospital
- Held spring fundraiser for annual 5-8 grade camping trip
- Held Man Up! community and school sponsored men's health fair in which parents received free information from health professionals, nutritionists, financial specialists, and educators.
- Held Daddy/Daughter dance and Spring Formal
- Held end of year assemblies including Muffins with Moms Breakfast, Donuts with Dads Breakfast, President's Awards Ceremony, Awards Ceremony, and Field Day
- Recognized student achievement during Honor Roll Assemblies
- 2nd annual DEA Student Art Exhibit
- Held promotional ceremonies for kindergarten and eighth grade classes.

District Wide Financial Statements

The District Wide Financial Statements provide information about the activities of the School District as a whole, presenting both an aggregate view of the School District's finances and a long term view of those finances. District Wide statements are presented on a full accrual basis, which is the primary accounting method used in private industry. The Statement of Net Assets includes all of the District's assets and liabilities. The Statement of Activities reports all of the School District's current year's revenues and expenses by type of activity.

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

- Over time, increases and decreases in the District’s net assets are in indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors.

Fund Financial Statements

The fund financial statements provide more detailed information about the District’s funds, focusing on its most significant or “major” funds, not the District as a whole. It provides information as to the amount of financial resources that can be spent in the near future to finance programs. It also provides information about the District’s most significant Funds – the General Fund (the principal operating fund), the Debt Service Fund, and its non-major Funds, which are grouped together and presented as Other Governmental Funds. The School District’s non-major Funds are Food Service. Fund Financial Statements are presented on a modified accrual basis. Only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they can be paid using current financial resources.

The David Ellis Academy – West as a Whole

As discussed above, the Statement of Net Assets provides information of the Academy as a whole. Table 1 provides a summary of the School District’s net assets as of June 30, 2010:

Table 1 – Summary of David Ellis Academy – West – Net Assets

	Governmental Activities
Assets	
Current and other assets	\$ 5,269,071
Capital assets - net of accumulated depreciation	9,943,988
Total assets	<u>15,213,059</u>
Liabilities	
Current liabilities	34,430
Accrued Expenses	170,399
Accrued Salaries	467,978
Long-term liabilities:	
Long-term liabilities, due within one year	215,000
Long-term liabilities, due after one year	14,155,000
Total liabilities	<u>15,042,807</u>
Net Assets	
Invested in capital assets, net of related Debt	(4,426,012)
Unrestricted	4,596,264
Total Net Assets	<u><u>\$ 170,252</u></u>

Net assets at year-end were \$9,943,988. The School District's investment in capital assets, net of accumulated depreciation, was (\$398,829). The \$4,596,264 in unrestricted net assets represent the cumulative operating results for the year ended June 30, 2010 and all prior years.

Table 2 – Summary of the Statement of Activities

Revenues

Program revenue		
Charges for services	\$	60,797
Grants and categoricals		1,037,328
General revenues		
State foundation allowance		5,688,744
Other Funds		250,365
		<hr/>
Total revenues		7,037,234

Function/Program Expenses

Instruction		2,438,746
Pupil Services		267,519
General Administration Services		734,111
School Administration Services		271,904
Business Services		91,210
Operations & Maintenance		786,740
Central		140,359
Food Services		242,516
Community Service		29,515
Depreciation		454,120
Other-Interest Payment		874,068
		<hr/>
Total Expenses		6,330,809

Increase in Net Assets \$ 706,424

Table 3 – Capital Assets

	<u>2009</u>	<u>2010</u>
Land	\$ 438,000	\$ 438,000
Building and Improvements	\$ 10,425,268	\$ 10,425,268
Computer Equipment	195,096	241,025
Construction in progress		
Equipment and furniture	118,613	127,975
Total Capital Assets	<hr/> 11,176,976	<hr/> 11,232,267
Less: Accumulated depreciation	834,159	1,288,279
	<hr/>	<hr/>
Net Capital Assets	<u>\$ 10,342,818</u>	<u>\$ 9,943,988</u>

Debt

At June 30, 2010, the School District has total outstanding long-term debt of \$14,370,000.

General Fund Budget Highlights

State law requires that school districts periodically amend their budgets to ensure that expenditures do not exceed appropriations. During the year, the School District revised its budget in response to and/or in anticipation of changing operating conditions. The School District had three budget amendments during the year that were approved by the David Ellis Academy – West Board. (A schedule showing the School's District's original budget, final budget, and actual results for the General Fund is provided in the Required Supplemental Information section of the financial statements).

Economic Factors Affecting Next Year's Budgets

The School District's administration and the David Ellis Academy – West board consider many factors in the budget process. One of the most important factors affecting the budget is student enrollment. Nearly 90% of the School District's revenue is derived from the State of Michigan's student enrollment based funding formula. The Foundation Allowance was \$7,331 per pupil for the 2009-2010 school year. In the event the Foundation Allowance is decreased, Administration and the Board will amend the budget accordingly.

DAVID ELLIS ACADEMY - WEST
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 4,011,399
Other receivables	
State	1,041,716
Federal	176,049
Other	39,907
Capital assets, net of accumulated depreciation	<u>9,943,988</u>
Total assets	\$ 15,213,059
Liabilities	
Accounts payable	34,430
Accrued expenses	170,399
Accrued salaries	467,978
Long-term liabilities:	
Long-term liabilities, due within one year	215,000
Long-term liabilities, due after one year	<u>14,155,000</u>
Total liabilities	15,042,807
Net Assets	
Invested in capital assets, net of related debt	(4,426,012)
Unrestricted	<u>4,596,264</u>
Total net assets	<u><u>\$ 170,252</u></u>

See accompanying notes to financial statements

**DAVID ELLIS ACADEMY - WEST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
Governmental Activities				
Instruction	\$ 2,438,746	\$ -	\$ 709,916	\$ (1,728,830)
Supporting services				
Pupil support services	267,519	-	-	(267,519)
General administration services	734,111	-	-	(734,111)
School administration services	271,904	-	-	(271,904)
Business services	91,210	-	-	(91,210)
Operations and maintenance	786,741	-	-	(786,741)
Central	140,359	-	-	(140,359)
Food services	242,516	26,686	184,001	(31,829)
Community services	29,515	34,110	-	4,595
Depreciation	454,120	-	-	(454,120)
Other - interest payments	874,068	-	-	(874,068)
	<u>\$ 6,330,809</u>	<u>\$ 60,796</u>	<u>\$ 893,917</u>	
Total governmental activities				(5,376,096)
General revenues				
				5,688,744
State aid - formula grants				45,000
Perkins Foundation				96,200
YMAC Grant				2,000
Bay Mills Grant				250,576
Other revenue				<u>6,082,520</u>
				6,082,520
				Change in Net Assets 706,424
				Net Assets - July 1, 2009 (536,172)
				Net Assets - June 30, 2010 <u>\$ 170,252</u>

See accompanying notes to financial statements

**DAVID ELLIS ACADEMY - WEST
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

ASSETS

	<u>General Fund</u>
Cash and cash equivalents	\$ 4,011,399
Due from other governmental units	1,217,765
Accounts receivable	<u>39,907</u>
Total assets	<u><u>\$ 5,269,071</u></u>

LIABILITIES AND FUND BALANCES

Liabilities	
Accounts payable	\$ 34,430
Accrued expenses	\$ 170,399
Accrued salaries	<u>467,978</u>
Total liabilities	672,807
Fund Balances	
Unreserved	<u>4,596,264</u>
Total fund balances	<u>4,596,264</u>
Total liabilities and fund balances	<u><u>\$ 5,269,071</u></u>

See accompanying notes to financial statements

**DAVID ELLIS ACADEMY - WEST
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balances - Governmental Funds \$ 4,596,264

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, therefore, not reported as assets in governmental funds

Cost of capital assets	\$ 11,232,267	
Accumulated depreciation	<u>(1,288,279)</u>	<u>9,943,988</u>

Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bond payable	<u>(14,370,000)</u>
--------------	---------------------

Total Net Assets - Governmental Activities \$ 170,252

See accompanying notes to financial statements

DAVID ELLIS ACADEMY - WEST
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues			
Local sources	\$ 245,654	\$ 26,687	\$ 272,341
State sources	5,688,744		5,688,744
Federal sources	709,916	184,001	893,917
Other sources - Perkins Foundation Grant	45,000		45,000
Other sources - YMAC Grant	96,200		96,200
Other sources - Bay Mills Grant	2,000		2,000
Other sources - Interest Income	39,032	-	39,032
	<hr/>	<hr/>	<hr/>
Total revenues	6,826,546	210,688	7,037,234
Expenditures			
Current			
Instructional services	2,438,746	-	2,438,746
Supporting services:			
Pupil support services	267,519	-	267,519
General administration services	734,111	-	734,111
School administration services	271,904	-	271,904
Business services	91,210	-	91,210
Operations and maintenance	786,741	-	786,741
Central	140,359	-	140,359
Community services	29,515	-	29,515
Food services	-	242,516	242,516
Other - interest payments	874,068	-	874,068
Capital expenditures	55,291	-	55,291
	<hr/>	<hr/>	<hr/>
Total expenditures	5,689,464	242,516	5,931,980
Excess (Deficiency) of Revenues Over			
Expenditures	1,137,082	(31,828)	1,105,254
Other Financing Sources (Uses)			
Operating transfers - in	-	31,828	31,828
Operating transfers - out	(31,828)	-	(31,828)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(31,828)	31,828	-
Net Change in Fund Balances	1,105,254	-	1,105,254
Fund Balances - July 1, 2009	3,491,010	-	3,491,010
	<hr/>	<hr/>	<hr/>
Fund Balances - June 30, 2010	\$ 4,596,264	\$ -	\$ 4,596,264
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements

**DAVID ELLIS ACADEMY - WEST
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Total Net Change in Fund Balances - Governmental Funds \$ 1,105,254

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	(454,121)	
Capital outlays (site improvements, equipment and furniture expenditures)	<u>55,291</u>	<u>(398,830)</u>

Change in Net Assets of Governmental Activities \$ 706,424

See accompanying notes to financial statements

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of David Ellis Academy - West (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 the significant accounting policies:

A. Reporting Entity

David Ellis Academy - West is a public school academy that provides instructional and support services to elementary and middle school students from kindergarten to the eighth grades. The 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 entered into an eight-year contract with Bay Mills Community College to charter a public school academy. The contract expires on June 30, 2014. 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. Bay Mills Community College 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 Bay Mills Community College 3 percent of State aid as an administrative fee. The total administrative fee paid through June 30, 2010 to the Bay Mills Community College was approximately \$170,752.

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 operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate, component units of the Academy. Based on application of the criteria, the entity does not contain component units.

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. 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 and capital requirements of a particular function.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements

The district-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.

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The effect of the interfund activity has been substantially eliminated from the government-wide financial statements.

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

Fund-Based 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 government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required 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 government.

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The State of Michigan utilizes a foundation allowance 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. Revenues from state sources are 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 is recognized as revenue in accordance with state law.

The Academy also receives revenue from the State of Michigan to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports the following major governmental fund:

General Fund

The General Fund is used to record the general operation 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.

Additionally, the Academy reports the following nonmajor governmental Special Revenue Fund. This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes in the Academy's food service program. Any deficit generated by this activity is the responsibility of the General Fund.

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets or Equity

Deposits, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired.

The Academy has FDIC insurance on all bank deposits.

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost 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 extend asset life are not capitalized. The Academy does not have any infrastructure-type assets.

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets (Continued)

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

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

MPSERS Liability

The Academy contracted with the Bardwell Group – Management Company to provide all staffing personnel during the year under audit. Consequently, all staffing cost is treated as purchased services in these financial statements.

The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year ended June 30, 2010.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Long-Term Obligations

In the government-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 bond proceeds, premiums and discounts, as well as issuance costs, during the current period.

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the Academy's financial statements.

District-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Academy's activities have been provided.

Capital assets of \$11,232,267 (net of depreciation of \$1,288,279) are currently recorded in the governmental activities column of the statement of net assets.

The fund financial statements focus on major funds rather than fund types.

Estimates

The preparation of the 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.

**DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Budgetary Data

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

The following segments of the budget were over expended by the amounts stated below. In all cases adequate fund balance was available to cover these expenditures:

<u>General Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Pupil support services	243,826	267,519	23,693
General administration services	706,400	734,111	27,711
School administration services	268,185	271,904	3,719
Central Support	137,088	140,359	3,271
Capital expenditures	-	55,291	55,291

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Academy formally adopted General Fund, and Special Revenue Funds (Food Services) budgets by function for the fiscal year ended June 30, 2010. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund and Special Revenue Funds at June 30, 2010. During the current year, the budget was amended in a legally permissible manner.

The combined statement of revenues, expenditures and changes in fund balances – all governmental fund types is presented in conformity with generally accepted accounting principles. The combined statement of revenues, expenditures and changes in fund balances – budget and actual is presented on the same basis of accounting used in preparing the adopted budget.

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, 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 investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. The Academy has designated one bank for the deposit of its funds, and has not adopted any other formal investment policy.

The Academy's cash and investments are not subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of 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 has evaluated its depositories and acquired additional insurance to cover all deposits. Therefore, all cash deposits are covered by FDIC insurance.

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

At year end, the Academy's deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$4,011,399.

The deposits of the Academy were reflected in the accounts of the financial institution at \$4,073,005, of which all is covered by federal depository insurance.

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2009	Additions	Disposals and Adjustments	Balance June 30, 2010
Assets being depreciated:				
Land	\$ 438,000	\$ -	\$ -	\$ 438,000
Buildings and improvements	10,425,267	-	-	10,425,267
Computer equipment	195,096	45,929	-	241,025
Equipment and furniture	118,613	9,362	-	127,975
Construction in process	-	-	-	-
Subtotal	11,176,976	55,291	-	11,232,267
Accumulated depreciation:				
Land	-	-	-	-
Buildings and improvements	773,698	402,851	-	1,176,549
Computer equipment	54,508	44,760	-	99,268
Equipment and furniture	5,952	6,510	-	12,462
Construction in process	-	-	-	-
Subtotal	834,158	454,121	-	1,288,279
Net capital assets being depreciated	10,342,818	(398,830)	-	9,943,988
Net capital assets	<u>\$ 10,342,818</u>	<u>\$ (398,830)</u>	<u>\$ -</u>	<u>\$ 9,943,988</u>

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to specific activities of the Academy as follows:

Governmental activities:	
Instruction	\$ -
Operations and maintenance	<u>454,121</u>
Total governmental activities	<u><u>\$ 454,121</u></u>

NOTE 5 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employees injuries (workers 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 since inception.

NOTE 6 - MANAGEMENT AGREEMENT

The Academy has entered into a management agreement with The Bardwell Group (the "Management Company"), a for-profit corporation. The Management Company is responsible for all management, operation, administration, and education of the Academy. All Academy personnel are provided by the Management Company. The total management fee expensed by David Ellis Academy - West for the year ended June 30, 2010 approximated \$535,892. The management agreement between the Academy and The Bardwell Group is extended annually.

DAVID ELLIS ACADEMY - WEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7 - BONDS PAYABLE

Future debt service on the bond obligation at 5.85% with payments due June 1 or each year for 30 years is as follows:

<u>June 1,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal + Interest</u>
2011	215,000	844,238	1,059,238
2012	225,000	831,606	1,056,606
2013	240,000	818,388	1,058,388
2014	255,000	804,288	1,059,288
2015	270,000	789,306	1,059,306
2016	285,000	773,444	1,058,444
2017	300,000	756,700	1,056,700
2018	320,000	739,075	1,059,075
2019	335,000	720,275	1,055,275
2020	355,000	700,594	1,055,594
2021	375,000	679,738	1,054,738
2022	400,000	657,706	1,057,706
2023	420,000	634,206	1,054,206
2024	445,000	609,531	1,054,531
2025	475,000	583,388	1,058,388
2026	500,000	555,481	1,055,481
2027	530,000	526,106	1,056,106
2028	560,000	494,969	1,054,969
2029	595,000	462,069	1,057,069
2030	630,000	427,113	1,057,113
2031	665,000	390,100	1,055,100
2032	705,000	351,031	1,056,031
2033	750,000	309,613	1,059,613
2034	790,000	265,550	1,055,550
2035	840,000	219,138	1,059,138
2036	890,000	169,788	1,059,788
2037	2,000,000	117,500	2,117,500
Totals	<u>\$ 14,370,000</u>	<u>\$ 15,230,940</u>	<u>\$ 29,600,940</u>

REQUIRED SUPPLEMENTAL INFORMATION

DAVID ELLIS ACADEMY - WEST
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(GAAP Basis)</u>	<u>Variances</u> <u>Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final</u> <u>to Actual</u>
Revenues				
Local revenues	\$ 212,000	\$ 272,000	\$ 245,654	\$ (26,346)
State program revenues	5,494,000	5,680,000	5,688,744	8,744
Federal program revenues	552,149	895,371	709,916	(185,455)
Other revenue - Grants	20,000	182,232	182,232	-
Total revenues	6,278,149	7,029,603	6,826,547	(203,057)
Expenditures				
Current				
Instructional services	2,044,546	2,515,298	2,438,746	(76,552)
Supporting services				
Pupil support services	329,417	243,826	267,519	23,693
General administration services	714,220	706,400	734,111	27,711
School administration services	256,694	268,185	271,904	3,719
Business services	103,653	91,986	91,211	(775)
Operations and maintenance	729,260	1,241,482	786,741	(454,741)
Central	206,378	137,088	140,359	3,271
Community services	40,000	30,000	29,515	(485)
Other - interest payments	1,140,000	875,000	874,068	(932)
Capital expenditures	-	-	55,291	55,291
Total expenditures	5,564,168	6,109,265	5,689,465	(419,800)
Excess (Deficiency) of Revenues				
Over Expenditures	713,981	920,338	1,137,082	216,743
Other Financing Sources (Uses)				
Operating transfers - out	(25,000)	(25,000)	(31,828)	(6,828)
Total other financing sources (uses)	(25,000)	(25,000)	(31,828)	(6,828)
Net Change in Fund Balance	688,981	895,338	1,105,254	209,915
Fund Balance - July 1, 2009	3,491,010	3,491,010	3,491,010	-
Fund Balance - June 30, 2010	<u>\$ 4,179,991</u>	<u>\$ 4,386,348</u>	<u>\$ 4,596,264</u>	<u>\$ 209,915</u>

See accompanying notes to financial statements

OTHER SUPPLEMENTAL INFORMATION

**DAVID ELLIS ACADEMY - WEST
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	Food Services
Revenues	
Local sources	\$ 26,687
State sources	-
Federal sources	184,001
Total revenues	210,688
Expenditures	
Food services	242,516
Total expenditures	242,516
Other Financing Sources	
Operating transfers	31,828
Excess of Revenues Over Expenditures and Other Financing Sources	-
Fund Balance - July 1, 2009	-
Fund Balance - June 30, 2010	\$ -

See accompanying notes to financial statements

DAVID ELLIS ACADEMY - WEST

SUPPLEMENTAL INFORMATION

SINGLE AUDIT REPORT

JUNE 30, 2010

SECTION A

**DAVID ELLIS ACADEMY - WEST
SUPPLEMENTAL INFORMATION
SINGLE AUDIT REPORT**

TABLE OF CONTENTS

	PAGE(S)
Independent Auditor's Report	1A
Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards	2A - 3A
Schedule of Expenditures of Federal Awards	4A
Notes to Schedule of Expenditures of Federal Awards	5A
Schedule of Findings and Questioned Costs	6A - 7A

Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

645 GRISWOLD, SUITE 1812
DETROIT, MICHIGAN 48226
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
David Ellis Academy - West

We have audited the general purpose financial statements of David Ellis Academy - West for the year ended June 30, 2010 and have issued our report thereon dated October 11, 2010. Those general purpose financial statements are the responsibility of the management of David Ellis Academy - West. Our responsibility was to express an opinion on those general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of David Ellis Academy - West taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Wilkerson & Associate PC

October 11, 2010

Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

645 GRISWOLD, SUITE 1812
DETROIT, MICHIGAN 48226
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

REPORT LETTER ON COMPLIANCE WITH LAWS AND REGULATIONS AND INTERNAL CONTROL - MAJOR FEDERAL AWARDS

To the Board of Directors of
David Ellis Academy - West

Compliance

We have audited the compliance of David Ellis Academy - West with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. David Ellis Academy - West's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of David Ellis Academy - West's management. Our responsibility is to express an opinion on David Ellis Academy - West's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about David Ellis Academy - West's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on David Ellis Academy - West's compliance with those requirements.

To the Board of Directors of
David Ellis Academy - West

In our opinion, David Ellis Academy - West complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of David Ellis Academy - West is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered David Ellis Academy - West's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Wilkerson & Associate PC

October 11, 2010

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL/GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM/TITLE/GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	ACCRUED (DEFERRED) REVENUE JULY 1, 2009	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR CASH RECEIPTS	ACCRUED (DEFERRED) REVENUE JUNE 30, 2010
Child Nutrition Cluster - U.S. Department of Agriculture							
Passed through Michigan Department of Education							
Cash Assistance:							
National School Lunch Program - 0910	10.555	173,545	-	-	173,545	173,545	-
Non-Cash Assistance (Commodities)							
Commodities Entitlement - 0910	10.555	8,002	-	-	8,002	8,002	-
Commodities Bonus - 0910	10.555	2,453	-	-	2,453	2,453	-
Total Child Nutrition Cluster		184,000	-	-	184,000	184,000	-
Other Federal Awards:							
U.S. Department of Education:							
Title I, Part A - Project Number 091530-0809	84.010	196,229	12,000	192,000	4,229	16,229	-
Title I, Part A - Project Number 101530-0910	84.010	230,519	-	-	230,519	170,519	60,000
ARRA Title I, Part A - Project Number 101535-0910	84.389	131,197	-	-	131,197	88,000	43,197
ARRA Title II, Part D - Project Number 104295-0910	84.386	4,735	-	-	4,735	-	4,735
Title II, Part A - Improving Teacher Quality Project Number 090520-0809	84.367	25,998	6,410	21,410	4,578	10,988	-
Title II, Part A - Improving Teacher Quality Project Number 100520-0910	84.367	27,568	-	-	27,568	27,568	-
Wayne RESA IDEA Flow-Through Project Number 100450-0910	84.027	52,394	-	-	52,394	40,000	12,394
ARRA Special Ed Flow-Through Project Number 101455-0910	84.391	54,808	-	-	54,808	53,600	1,208
Education Stabilization Fund - Project Number 092525-0809	84.394	-	264,579	264,579	-	264,579	-
Education Stabilization Fund - Project Number 102525-0910	84.394	199,515	-	-	199,515	145,000	54,515
Title V Part A - Project Number 090250-0809	84.298	373	-	-	373	373	-
Total Passed Through Michigan Department of Education		923,336	282,989	477,989	709,916	816,856	176,049
TOTAL FEDERAL FINANCIAL ASSISTANCE		\$ 1,107,336	\$ 282,989	\$ 477,989	\$ 893,916	\$ 1,000,856	\$ 176,049

The accompanying notes are an integral part of this schedule.

DAVID ELLIS ACADEMY - WEST
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Universal Academy and is presented on the same basis of accounting as the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 2 - GRANT SECTION AUDITOR'S REPORT

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

**DAVID ELLIS ACADEMY - WEST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

* Material weakness(es) identified? Yes No

* Reportable condition(s) identified that are Not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? Yes No

* Reportable condition(s) identified that are Not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit finds disclosed that are required to be reported in accordance with Section 501(a) of Circular A-133? Yes No

Identification of major program:

CFDA Number	Federal Program
84.010	Title 1
84.389	ARRA - Title 1

DAVID ELLIS ACADEMY - WEST
REPORT TO THE BOARD OF DIRECTORS

JUNE 30, 2010

Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

645 GRISWOLD, SUITE 1812
DETROIT, MICHIGAN 48226
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

To the Board of Directors
David Ellis Academy - West

We have recently completed our audit of the basic financial statements of David Ellis Academy - West (the "Academy") for the year ended June 30, 2010. In addition to our audit report, we are providing the following required audit communication, recommendations, and informational comments which impact the Academy:

	<u>Page(s)</u>
Results of the Audit	2-5
Recommendations	6
Informational Items	6-8

We would like to thank Mrs. Tracey Ellis, Mr. Ryan Sheffield, and the Academy staff for the courtesy and cooperation extended to us during the course of the engagement. We are grateful for the opportunity to be of service of David Ellis Academy - West. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Wilkerson & Associate PC

October 11, 2010

Members: A.I.C.P.A. and M.A.C.P.A.

To the Board of Directors
David Ellis Academy - West
October 11, 2010

Results of the Audit

We have audited the financial statements of David Ellis Academy - West (the "Academy") for the year ended June 30, 2010 and have issued our report thereon dated October 11, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 29, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all materials respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Academy's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Academy's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 11, 2010 regarding our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

To the Board of Directors
David Ellis Academy - West
October 11, 2010

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the Academy, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. We have communicated those conditions in a separate letter dated October 11, 2010 regarding our consideration of the Academy's internal control over financial reporting and on our observations regarding certain significant deficiencies that we believe to be material weaknesses in the Academy's internal controls.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters during the preliminary audit phase.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2010.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are in integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates included in this year's financial statements.

To the Board of Directors
David Ellis Academy - West
October 11, 2010

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statements disclosures are particularly sensitive because of their significance to financial statements users. There were no particularly sensitive disclosures included in the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 11, 2010.

Management Consultants with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultants with other accountants.

To the Board of Directors
David Ellis Academy - West
October 11, 2010

Other Audit Findings or Issues

In the normal course of our professional association with the Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Academy, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Academy's auditors.

In addition to the comments and recommendations in this letter, our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on and audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report), and we recommend that the matters we have noted there receive your careful consideration.

This information is intended solely for the use of the board of directors and management of David Ellis Academy - West and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Wilkerson & Associates PC

Larry D. Wilkerson, CPA

To the Board of Directors
David Ellis Academy - West
October 11, 2010

Recommendations

DAVID ELLIS ACADEMY - WEST RECOMMENDATIONS

As a result of auditing standards required to be implemented last year, the audit continues to require a strong emphasis be placed on the Academy's internal controls systems. The primary goal of internal controls is to provide a reasonable (as opposed to absolute) protection to the Academy and its assets and financial information. During this year's audit process, we noted no items that required management to make changes; therefore, no recommendations are made for this year.

Informational items

DAVID ELLIS ACADEMY - WEST Informational Items

Budgeting Strategy in Difficult Financial Times

Over the last several years, Michigan academies have struggled with the reality that the State has not been able to significantly increase funding. Based on the State's current budgetary outlook, it is apparent that there will not be any additional funds for the foreseeable future. With no other revenue source to replace it, the School Aid Fund will not be equipped to maintain funding at the current level, creating a significant funding cliff.

In recent years, financial struggles have been a way of life for Michigan academies. As of today the outlook is not positive. In the next months, we encourage the Academy to craft its plan. Key to the plan is defining how the educational programs and services will need to be adapted or redefined to cope with the funding issues while meeting the educational needs of the students. These tasks are not easy, but in the end could become opportunities to redesign how services are provided and educational objectives are met. If the academy can identify opportunities to "do things differently" it may be able to mitigate some of the negative effects of a reduced funding environment.

To the Board of Directors
David Ellis Academy - West
October 11, 2010

DAVID ELLIS ACADEMY - WEST Informational Items

Expanded FDIC Insurance Coverage

The Federal Deposit Insurance Corporation (better known as FDIC) has temporarily increased the dollar amount of insurance provided to all depositors from \$100,000 to \$250,000. This expanded coverage is in effect through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor for all account categories except IRAs and certain retirement accounts, which will remain at \$250,000.

In addition, the FDIC announced its temporary Transaction Account Guarantee, which provides unlimited FDIC coverage for noninterest-bearing transaction deposit accounts at FDIC-insured institutions that agree to participate in the program. This program will only remain in effect until December 31, 2010.

For more information visit: <http://www.fdic.gov/deposit/deposits/changes.html>

Upcoming Accounting Change – GASB No. 54 Redefines Fund Balance Components

The Governmental Accounting Standards Board has recently issued a new pronouncement, GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB No. 54 eliminates the current use of the terms “reserved” and “designated” in the reporting of fund balances, and replaces those terms with five new categories for segregating fund balance.

The standard is effective for periods beginning after June 15, 2010. The Michigan Department of Education will be updating the State mandated chart of accounts to reflect the new standard, and the Academy will need to modify its general ledger coding and financial reporting practices, accordingly.

Following are the new categories and related definitions to be used for describing the components of your fund balance:

- **Non-spendable** – Includes amount either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.

To the Board of Directors
David Ellis Academy - West
October 11, 2010

DAVID ELLIS ACADEMY - WEST Informational Items

- **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 and debt service funds.
- **Committed** – Includes amounts that are committed for specific purposes by formal action of the government’s highest level of decision-making authority. 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 government 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 government 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.
- **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”.

The standard also requires disclosure in the financial statement of any minimum fund balance policies. We encourage the Academy to become familiar with the new terms and definitions and work with the users of the financial statements to ensure a clear and understanding of the new requirements.