

**DAVID ELLIS ACADEMY**

---

**Financial Report  
with Supplemental Information  
June 30, 2010**

# DAVID ELLIS ACADEMY

## 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 - 8

### BASIC FINANCIAL STATEMENTS

District-wide financial statements:	
Statement of net assets	9
Statement of activities	10
Fund financial statements:	
Governmental funds:	
Balance sheet	11
Reconciliation of the governmental funds balance to the statement of net assets	12
Statement of revenues, expenditures, and changes in fund balances	13
Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities	14
Notes to financial statements	15 - 26

### REQUIRED SUPPLEMENTAL INFORMATION

Budgetary comparison schedule - general fund	27
----------------------------------------------	----

### OTHER SUPPLEMENTAL INFORMATION

Special Revenue Funds:	
Combining statement of revenues, expenditures, and changes in fund balance	28

# 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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of David Ellis Academy 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'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 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

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 28 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'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'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

We have audited the financial statements of David Ellis Academy 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'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.

To the Board of Directors of  
David Ellis Academy

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.

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

#### Financial Highlights:

- The District had an increase in Fund Balance of \$516,065 for the 2009 – 2010 fiscal year.
  - The increase is partially due to funds awarded to the school from the Perkins Foundation.
  - Outlays for new capital assets were increased by \$102,961 for investments in computer equipment, furniture and fixtures and leasehold improvements.

**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 accreditation from North Central Association (NCA) program
- In School Tutoring offered
- Participated in Math-a-thon for St. Jude Research Hospital
- Males Applying Practical Sense(MAPS), male mentoring program
- Love You Like A Sister (LYLAS), female mentoring program
- Proctor & Gamble Girl's Program
- Donated monies to American Diabetes Association
- Trauma Related Injury Prevention (TRIP), a partnership with Children's Hospital
- Fully implemented library skills class which proficiency of library
- Continued to provide hugs every morning
- Provided Special Education Services in accordance to IEP's.
- Continued Glory Math (web based computer program) participation from all students in the computer lab.
- Mobile Dentist continues to serve all students at our school
- Students may also enroll in girls and boys basketball, karate, fitness club, baseball, and dance class.
- Donated monies for Leukemia research program
- NED Character Education
- Implemented Positive Behavior Support (PBS)
- Introduced Carnegie Program (7<sup>th</sup> & 8<sup>th</sup> Grade Algebra Readiness Program)
- Donated monies to Haiti for earthquake victims
- Continued to collect Box Tops and labels for education

- **Participated in The League (Service Learning Program)**
- **Donated time to foster children at Orchard's Family Services**
- **Implemented I-Care Club (Conflict Resolution Training)**

**Staff members attended a Staff Development course:**

- **NCA Requirements**

### **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 an 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 Districts 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 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's Net Assets**

	<u>Governmental Activities</u>
<b>Assets</b>	
Current and other assets	2,332,692
Capital assets - net of accumulated depreciation	<u>171,800</u>
<b>Total assets</b>	<b>2,496,492</b>
<b>Liabilities</b>	
Current Liabilities	23,158
Accrued Expenses	<u>327,197</u>
<b>Total liabilities</b>	<b>350,355</b>
<b>Net Assets</b>	
Invested in capital assets, net of accumulated depreciation	171,800
Unrestricted	<u>1,974,337</u>
<b>Total Net Assets</b>	<b><u>\$ 2,146,137</u></b>

Net assets at year-end were \$2,146,137. The School District's investment in capital assets, net of accumulated depreciation, was \$171,800. The \$1,974,337 in unrestricted net assets represents the cumulative operating results for the year ended June 30, 2010 and all prior years.

**Table 2 – Summary of the Statement of Activities**

<b>Revenues</b>	
Program revenue	
Charges for services	\$ 109,275
Grants and contributions	451,211
General revenues	
State foundation allowance	2,336,866
Other Funds	<u>68,019</u>
<b>Total revenues</b>	<b>2,965,371</b>
<b>Function/Program Expenses</b>	
Instruction	1,146,672
Pupil Services	278,103
Transportation	10,882
General Administration	325,827

School Administration	173,643
Operations & Maintenance	342,397
Food Services	119,410
Business Services	45,043
Community Services	65,845
Total Expenses	<u>2,507,822</u>

**Increase in Net Assets** \$ 457,549

### Table 3 – Capital Assets

	<b>June 30</b>	
	<u>2010</u>	<u>2009</u>
Leasehold Improvements	\$ 109,317	\$ 93,535
Furniture & Fixtures	79,103	73,467
Computer Equipment	257,586	197,456
Computer Software	74,026	52,613
Total Capital Assets	520,032	417,071
Less Accumulated Depreciation	348,232	289,716
Net Capital Assets	<u>\$ 171,800</u>	<u>\$ 127,355</u>

### Debt

At June 30, 2010, the School District has no outstanding debt.

### 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 two budget amendments during the year that were approved by the David Ellis Academy Board. (A schedule showing the School District's original budget, final budget, and actual results for the General Fund is provided in the Required Supplemental Information section of these financial statements).

### Economic Factors Affecting Next Year's Budgets

The School District's administration and the David Ellis Academy board consider many factors in the budget process. One of the most important factors affecting the budget is student enrollment. Nearly 80% of the School District's revenue is derived from the State of Michigan's student enrollment based funding formula. The current Foundation Allowance is \$7,580 per pupil.

**DAVID ELLIS ACADEMY  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,767,126
Other receivables	
State	491,352
Other	66,214
Capital assets, net of accumulated depreciation	<u>171,800</u>
Total assets	\$ 2,496,492
<b>Liabilities</b>	
Accounts payable	23,158
Other accrued liabilities	<u>327,197</u>
Total liabilities	350,355
<b>Net Assets</b>	
Invested in capital assets, net of related debt	171,800
Unrestricted	<u>1,974,337</u>
Total net assets	<u><u>\$ 2,146,137</u></u>

See accompanying notes to financial statements



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

**ASSETS**

	<b>General Fund</b>
Cash and cash equivalents	\$ 1,767,126
Due from other governmental units	491,352
Accounts receivable	66,214
Total assets	\$ 2,324,692

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>	
Accounts payable	\$ 23,158
Accrued liabilities	327,197
Total liabilities	350,355
<b>Fund Balances</b>	
Unreserved	1,974,337
Total fund balances	1,974,337
Total liabilities and fund balances	\$ 2,324,692

See accompanying notes to financial statements

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

**Total Fund Balances - Governmental Funds** \$ 1,974,337

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	\$ 520,032	
Accumulated depreciation	<u>(348,232)</u>	<u>171,800</u>

**Total Net Assets - Governmental Activities** \$ 2,146,137

See accompanying notes to financial statements

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

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>			
Local sources	\$ 64,680	\$ 9,815	\$ 74,495
State sources	2,333,920	2,947	2,336,867
Federal sources	377,514	73,697	451,211
Other sources - Foundations	61,065	42,434	103,499
Total revenues	2,837,179	128,893	2,966,072
<b>Expenditures</b>			
Current			
Instructional services	1,088,857	-	1,088,857
Supporting services:			
Pupil support services	278,103	-	278,103
General administration services	325,827	-	325,827
School administration services	173,643	-	173,643
Business services	45,043	-	45,043
Operations and maintenance	342,397	-	342,397
Transportation	10,882	-	10,882
Food services	-	119,410	119,410
Community services	65,845	-	65,845
Total expenditures	2,330,597	119,410	2,450,007
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	506,582	9,483	516,065
<b>Other Financing Sources (Uses)</b>			
Operating transfers - in	-	(9,483)	(9,483)
Operating transfers - out	9,483	-	9,483
Total other financing sources (uses)	9,483	(9,483)	-
<b>Net Change in Fund Balances</b>	516,065	-	516,065
<b>Fund Balances - July 1, 2009</b>	1,458,272	-	1,458,272
<b>Fund Balances - June 30, 2010</b>	\$ 1,974,337	\$ -	\$ 1,974,337

See accompanying notes to financial statements

**DAVID ELLIS ACADEMY  
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** \$ 516,065

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	(58,516)	
Capital outlays (site improvements, equipment and furniture expenditures)	<u>102,961</u>	<u>44,445</u>

**Change in Net Assets of Governmental Activities** \$ 560,510

See accompanying notes to financial statements

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of David Ellis Academy (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 is a public school academy that provides instructional and support services to elementary 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 a five-year contract with Detroit Public Schools to charter a public school academy in September 1998. On May 8, 2008, the contract was extended to June 30, 2010. 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. Detroit Public Schools 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 Detroit Public Schools 3 percent of State aid as an administrative fee. The total administrative fee paid through June 30, 2010 to the Detroit Public Schools was approximately \$70,097.

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**  
**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**  
**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  
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 Michigan 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  
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 believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

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.

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Pooled investment income from the General Fund and various Debt Service Funds is allocated to each fund based upon the balance of the principal invested.

**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

**DAVID ELLIS ACADEMY  
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)**

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.

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.

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

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

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

**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.

**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 \$520,032 (net of depreciation of \$348,232) 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.

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

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

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

**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.

**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 segment of the budget was over expended by the amount stated below. In this case an adequate fund balance was available to cover these expenditures:

<b><u>General Fund</u></b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Pupil support services	256,522	278,103	21,581

**DAVID ELLIS ACADEMY**  
**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 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 evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

**DAVID ELLIS ACADEMY  
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 \$1,767,126.

The deposits of the Academy were reflected in the accounts of the financial institution at \$1,765,431 of which \$250,000 is covered by federal depository insurance.

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>and Adjustments</u>	<u>Balance June 30, 2010</u>
Assets being depreciated:				
Leasehold improvements	\$ 93,535	\$ 15,782	\$ -	\$ 109,317
Furniture and fixtures	73,467	5,636	-	79,103
Computer equipment	197,456	60,130	-	257,586
Computer software	52,613	21,413	-	74,026
Subtotal	417,071	102,961	-	520,032
Accumulated depreciation:				
Leasehold improvements	21,802	15,616		37,418
Furniture and fixtures	46,285	7,837		54,122
Computer equipment	170,530	30,239		200,769
Computer software	51,099	4,824		55,923
Subtotal	289,716	58,516	-	348,232
Net capital assets being depreciated	127,355	44,445	-	171,800
Net capital assets	<u>\$ 127,355</u>	<u>\$ 44,445</u>	<u>\$ -</u>	<u>\$ 171,800</u>

**DAVID ELLIS ACADEMY**  
**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	\$ 42,899
Operations and maintenance	<u>15,617</u>
Total governmental activities	<u>\$ 58,516</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 for the year ended June 30, 2010 approximated \$230,358. The management agreement between the Academy and The Bardwell Group is extended annually.

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

**NOTE 7 - OPERATING LEASE**

The Academy entered into a five (5) year operating lease agreement with Greater Grace Temple. The Academy is responsible for insurance, repairs and maintenance for its building. The academy incurred rent expense in connection with this lease of \$180,000 for the period ended June 30, 2010.

**REQUIRED SUPPLEMENTAL INFORMATION**

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

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
<b>Revenues</b>				
Local revenues	\$ 65,288	\$ 75,000	\$ 74,496	\$ (504)
State program revenues	2,194,800	2,334,728	2,336,866	2,138
Federal program revenues	316,588	451,028	451,211	183
Other revenue	20,000	94,779	103,499	8,720
	<u>2,596,676</u>	<u>2,955,535</u>	<u>2,966,072</u>	<u>10,537</u>
<b>Expenditures</b>				
Current				
Instructional services	1,059,755	1,158,414	1,088,857	(69,557)
Supporting services				
Pupil support services	149,283	256,522	278,103	21,581
General administration services	315,824	352,942	325,827	(27,115)
School administration services	171,211	175,498	173,643	(1,855)
Business services	51,221	46,421	45,043	(1,378)
Operations and maintenance	526,931	343,295	342,397	(898)
Transportation	6,000	11,000	10,882	(118)
Food service	142,595	119,060	119,410	350
Community services	69,100	65,794	65,845	51
	<u>2,491,920</u>	<u>2,528,946</u>	<u>2,450,007</u>	<u>(78,939)</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	104,756	426,589	516,065	89,476
<b>Other Financing Sources (Uses)</b>				
Operating transfers - out	(25,000)	-	-	-
	<u>(25,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	79,756	426,589	516,065	89,476
<b>Fund Balance - July 1, 2009</b>	<u>1,175,729</u>	<u>1,537,807</u>	<u>1,458,272</u>	<u>(79,535)</u>
<b>Fund Balance - June 30, 2010</b>	<u>\$ 1,255,485</u>	<u>\$ 1,964,396</u>	<u>\$ 1,974,337</u>	<u>\$ 9,941</u>

See accompanying notes to financial statements

**OTHER SUPPLEMENTAL INFORMATION**

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

	<b>Food Services</b>
<b>Revenues</b>	
Local sources	\$ 9,815
State sources	2,946
Federal sources	73,697
Total revenues	86,458
<b>Expenditures</b>	
Food services	119,410
Total expenditures	119,410
<b>Other Financing Sources</b>	
Operating transfers	32,952
<b>Excess of Revenues Over Expenditures and Other Financing Sources</b>	-
<b>Fund Balance - July 1, 2009</b>	-
<b>Fund Balance - June 30, 2010</b>	\$ -

See accompanying notes to financial statements