

Dove Academy of Detroit

**Financial Report
with Supplementary Information
June 30, 2006**

Dove Academy of Detroit

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Independent Auditor's Report

To the Board of Directors
Dove Academy of Detroit

We have audited the accompanying financial statements of the governmental activities and major fund of Dove Academy of Detroit as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dove Academy of Detroit's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Dove Academy of Detroit as of June 30, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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To the Board of Directors
Dove Academy of Detroit

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 2006 on our consideration of the Academy's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 26, 2006

Dove Academy of Detroit

Management's Discussion and Analysis

This section of the 2005-2006 annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2006. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Dove Academy of Detroit financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund - the General Fund.

Management's Discussion and Analysis (MD&A)
(Required Supplementary Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)
Budgetary Information for Major Funds

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

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, operations, maintenance, and community services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

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

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by state law and by bond covenants. The governmental funds of the Academy use the following accounting approach:

Governmental Funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2006 and 2005:

TABLE I	Governmental Activities	
	2006	2005
	(in thousands)	
Assets		
Current and other assets	\$ 812.4	\$ 691.2
Capital assets	<u>4.6</u>	<u>7.3</u>
Total assets	817.0	698.5
Liabilities - Current liabilities	<u>563.1</u>	<u>596.0</u>
Net Assets		
Invested in property and equipment - Net of related debt	4.6	7.3
Unrestricted	<u>249.3</u>	<u>95.2</u>
Total net assets	<u>\$ 253.9</u>	<u>\$ 102.5</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$253,874 at June 30, 2006. Capital assets, net of related debt totaling \$4,619, compares the original cost, less depreciation of the Academy's capital assets. The remaining amount of net assets of \$249,255 was unrestricted.

The \$249,255 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2005.

TABLE 2

	Governmental Activities	
	2006	2005
	(in thousands)	
Revenue		
Program revenue - Operating grants	\$ 313.6	\$ 157.7
General revenue - State foundation allowance:		
State foundation allowance	3,344.0	3,232.3
Other	-	62.4
Total revenue	3,657.6	3,452.4
Functions/Program Expenses		
Instruction	1,761.7	1,660.2
Support services	1,741.8	1,754.1
Depreciation (unallocated)	2.7	2.7
Total functions/program expenses	3,506.2	3,417.0
Increase in Net Assets	\$ 151.4	\$ 35.4

As reported in the statement of activities, the cost of all of our governmental activities this year was \$3,506,227. Certain activities were partially funded by those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions of \$313,590. The remaining "public benefit" portion of our governmental activities was paid with \$3,344,016 from the state foundation allowance.

The Academy experienced an increase in net assets of \$151,379. Key reasons for the change in net assets are due to the General Fund operating surplus caused by enhanced enrollment and categorical funding, combined with control of expenditures.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the General Fund reported a fund balance of \$249,255, which is an increase of \$154,077 from last year. The primary reasons for the increase are as follows:

- An increase in state foundation allowance based on pupil enrollment
- An increase in federal categorical program funding
- A decrease in operational expenditures

The General Fund fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

There were significant revisions made to the 2005-2006 General Fund original budget. Revisions were made to move budgeted amounts into new categories to come into compliance with the Michigan School Accounting Manual. Budgeted revenues were increased substantially due to an increase in state aid foundation allowance, along with a corresponding substantial increase in federal categorical funding. Increases in expenditures were the result of increased costs but were far less proportionately than the increase in revenues. Increases in school administration, pupil support, and instructional support were due to increases in staffing.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the Academy had \$4,619 invested in capital assets, mostly in furniture and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of \$2,698, or 3 percent from last year. This was due to annual depreciation expense.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the Academy had no long-term debt. This is consistent with all prior years. The Academy continues to control expenses so that no debt is incurred or carried forward into the next fiscal year. We present more detailed information about our liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our appointed officials and administration consider many factors when setting the Academy's 2005-2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2006-2007 budget was adopted in April 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 95 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2006-2007 budget. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates that funds are sufficient to fund the appropriation.

Dove Academy of Detroit

Statement of Net Assets June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash (Note 3)	\$ 182,602
Due from other governmental units	629,824
Capital assets - Net (Note 4)	<u>4,619</u>
Total assets	817,045
Liabilities	
Accrued payroll and other liabilities	288,956
State aid anticipation note (Note 6)	<u>274,215</u>
Total liabilities	<u>563,171</u>
Net Assets	
Investment in capital assets - Net of related debt	4,619
Unrestricted	<u>249,255</u>
Total net assets	<u>\$ 253,874</u>

Dove Academy of Detroit

Statement of Activities Year Ended June 30, 2006

	<u>Program Revenue</u>	<u>Governmental Activities</u>
		Net (Expense) Revenue and
	Operating Grants/ <u>Expenses</u>	Changes in <u>Net Assets</u>
	<u>Contributions</u>	
Functions/Programs		
Primary government - Governmental activities:		
Instruction	\$ 1,761,739	\$ 313,590
Support services	1,741,790	-
Depreciation (unallocated)	<u>2,698</u>	<u>(2,698)</u>
Total governmental activities	<u>\$ 3,506,227</u>	<u>\$ 313,590</u>
		(3,192,637)
General revenues - State aid not restricted to specific purposes		<u>3,344,016</u>
Change in Net Assets		151,379
Net Assets - Beginning of year		<u>102,495</u>
Net Assets - End of year		<u>\$ 253,874</u>

Dove Academy of Detroit

Governmental Fund Balance Sheet June 30, 2006

	<u>General Fund</u>
Assets	
Cash (Note 3)	\$ 182,602
Due from other governmental units	<u>629,824</u>
Total assets	<u>\$ 812,426</u>
Liabilities and Fund Balance	
Liabilities	
Accrued payroll and other liabilities	\$ 288,956
State aid anticipation note (Note 6)	<u>274,215</u>
Total liabilities	563,171
Fund Balance - Unreserved - Undesignated	<u>249,255</u>
Total liabilities and fund balance	<u>\$ 812,426</u>

Dove Academy of Detroit

Governmental Fund Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets June 30, 2006

Fund Balance - Total Governmental Funds \$ 249,255

Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:

Cost of capital assets	\$ 92,239	
Accumulated depreciation	<u>(87,620)</u>	<u>4,619</u>

Net Assets - Governmental Activities \$ 253,874

Dove Academy of Detroit

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2006

	<u>General Fund</u>
Revenue	
State sources	\$ 3,470,561
Federal sources	<u>187,045</u>
Total revenue	3,657,606
Expenditures - Current	
Instruction	1,761,739
Support services	<u>1,741,790</u>
Total expenditures	<u>3,503,529</u>
Net Change in Fund Balance	154,077
Fund Balance - Beginning of year	<u>95,178</u>
Fund Balance - End of year	<u><u>\$ 249,255</u></u>

Dove Academy of Detroit

Governmental Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 154,077

Amounts reported for governmental activities in the statement of activities are different because governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation - Depreciation expense

(2,698)

Change in Net Assets of Governmental Activities **\$ 151,379**

Dove Academy of Detroit

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Dove Academy of Detroit (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

The Academy entered into a contract with Oakland University to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Oakland University board of trustees 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 renewed its contract with Oakland University for five years beginning July 1, 2001. A one-year extension of the contract was executed in 2006 and expires on June 30, 2007. The Academy pays the Oakland University board of trustees 3.0 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2006 payable to the Oakland University board of trustees were approximately \$104,000.

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

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. The General Fund is the Academy's only fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

The Academy reports the following major governmental fund:

General Fund - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

Assets, Liabilities, and Net Assets or Equity

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

Receivables and Payables - Trade receivables are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Capital Assets - Capital assets, which include furniture and equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical 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 infrastructure-type assets.

Furniture and equipment are depreciated using the straight-line method over the following useful lives:

Furniture and other equipment	5-10 years
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Use of Estimates - The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Dove Academy of Detroit

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation 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/Reclassifications - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund. All annual appropriations lapse at fiscal year end.

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

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

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.

Dove Academy of Detroit

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

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's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At year end, the Academy's deposit balance of \$483,847 had \$383,847 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. 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. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the Academy's deposits were reported in the basic financial statements as cash.

Note 4 - Capital Assets

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

	Balance July 1, 2005	Additions	Balance June 30, 2006
Capital assets being depreciated - Furniture and equipment	\$ 92,239	\$ -	\$ 92,239
Accumulated depreciation - Furniture and equipment	84,922	2,698	87,620
Net governmental capital assets	<u>\$ 7,317</u>	<u>\$ (2,698)</u>	<u>\$ 4,619</u>

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

Dove Academy of Detroit

Notes to Financial Statements June 30, 2006

Note 5 - Lease Commitments

The Academy leases its facilities from an LLC under common ownership with the owners of the management company under an operating lease expiring in June 2011. The Academy's annual lease rate is 20 percent of its total state pupil membership aid for the applicable school year. The Academy is responsible for repairs and maintenance of the facility. The amount expensed under this lease agreement totaled approximately \$694,000 for the year ended June 30, 2006.

Note 6 - State Aid Anticipation Note

On July 1, 2005, Dove Academy of Detroit borrowed \$200,000 on a state aid anticipation note. The note bears interest at 4.01 percent and was due on June 30, 2006. As of year end, \$34,215 remained to be paid. The Academy satisfied this obligation shortly after year end.

On September 1, 2005, Dove Academy of Detroit borrowed an additional \$240,000 on a state aid anticipation note. The note bears interest at 4.01 percent and is due in two installments on July 30, 2006 and August 30, 2006.

Note 7 - Management Agreement

The Academy has entered into a management agreement effective through June 30, 2006 with Schoolhouse Services and Staffing, Inc., 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 the Academy for the year ended June 30, 2006 approximated \$360,000. The management agreement between the Academy and Schoolhouse Services and Staffing, Inc. was extended to June 30, 2007.

Note 8 - Risk Management

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

Dove Academy of Detroit

Notes to Financial Statements June 30, 2006

Note 9 - Subsequent Events

On July 25, 2006, the Dove Academy of Detroit borrowed \$200,000 in a state aid anticipation note. The note bears interest at 5.430 percent and is due June 30, 2007.

Also, on September 15, 2006, the Dove Academy of Detroit of Detroit borrowed \$240,000 in a state aid anticipation note. The note bears interest at 5.430 percent and is due August 31, 2007.

Required Supplementary Information

Dove Academy of Detroit

Required Supplementary Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
State sources	\$ 3,318,000	\$ 3,480,836	\$ 3,470,561	\$ (10,274)
Federal sources	<u>148,000</u>	<u>190,650</u>	<u>187,045</u>	<u>(3,605)</u>
Total revenue	3,466,000	3,671,486	3,657,606	(13,879)
Expenditures - Current				
Instruction:				
Basic programs	1,464,232	1,319,000	1,354,626	35,626
Added needs	<u>262,550</u>	<u>404,100</u>	<u>407,113</u>	<u>3,013</u>
Total instruction	1,726,782	1,723,100	1,761,739	38,639
Support services:				
Instructional staff	115,500	113,700	113,390	(310)
Board of Education	472,700	484,100	480,184	(3,916)
School administration	142,050	134,300	134,806	506
Operations and maintenance	933,540	994,000	939,983	(54,017)
Pupil transportation services	3,000	5,000	5,214	214
Central administration	3,000	3,500	4,986	1,486
Business office	<u>67,180</u>	<u>58,800</u>	<u>63,227</u>	<u>4,427</u>
Total support services	1,736,970	1,793,400	1,741,790	(51,610)
Total expenditures	<u>3,463,752</u>	<u>3,516,500</u>	<u>3,503,529</u>	<u>(12,971)</u>
Net Change in Fund Balance	2,248	154,986	154,077	(908)
Fund Balance - July 1, 2005	<u>95,178</u>	<u>95,178</u>	<u>95,178</u>	<u>-</u>
Fund Balance - June 30, 2006	<u>\$ 97,426</u>	<u>\$ 250,164</u>	<u>\$ 249,255</u>	<u>\$ (908)</u>



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

To the Board of Directors
Dove Academy of Detroit
Detroit, Michigan

We have audited the financial statements of governmental activities and the major fund of Dove Academy of Detroit as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated September 26, 2006. 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 Dove Academy of Detroit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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



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To the Board of Directors
Dove Academy of Detroit

This report is intended solely for the information and use of management, the board of directors, 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.

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September 26, 2006



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September 26, 2006

To the Board of Directors
Dove Academy

Dear Board Members:

We have recently completed our audit of the Academy's financial statements for the year ended June 30, 2006.

As a result of the audit, we offer the following comments and recommendations for your review and consideration.

STATE AID ISSUES

In August 2006, the Governor signed the State Aid Act into law. Some highlights for FYE 2007 are as follows:

Foundation Allowance:

- The bill provides for a \$210 increase in the base foundation allowance.

New Categoricals:

- Enhancing equity by providing additional funds to low foundation districts / academies. Payment will go to districts / academies whose foundation allowance is below \$7,360. Districts / academies will receive the lesser of \$23 per pupil or the amount that will bring their foundation up to the \$7,360 level.
- Middle School math – \$54 per pupil for 6th, 7th and 8th graders in 2006-07, with performance requirements for receiving the funds in future years.

New Budgeting Requirement:

- A new section has been added to the proposed State Aid Act, Section 18(2), that says that within 30 days of adopting the annual budget, and any time the budget is revised, the district / academy shall make it available on its website in a form and manner prescribed by the department. In the event a district / academy does not have a website, they are to use the ISD website.

As always, final funding remains tentative, and there remains the continuing possibility of prorations if the School Aid Fund revenue should fall short of projections.

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FEDERAL PROGRAM EXPENDITURE DOCUMENTATION

During 2006 the Michigan Department of Education issued a clarification as to the types of documentation necessary to support payroll charges to federal programs. While this discussion is not comprehensive it is intended to highlight the key elements of the clarified requirements.

For an employee who works solely on a single federal program, required documentation includes:

- A "certification" that the employee worked solely on a particular federal program for the period covered by the certification
- The certification must be prepared at least semi-annually and signed by the employee or a supervisory official having first hand knowledge of the work performed by the employee

For an employee who is partly funded by a federal program but works in a "single cost objective" (that is, they perform the same function the entire day but are not 100% federally funded), the certification requirements above apply.

For "schoolwide" buildings, as defined by the Title I regulations, employees charged to federal grants within that building can use the certification requirements to support the time charged to the federal grant.

If an employee works on more than one federal award or part of their time is spent in non-federal award areas (and the services are not considered a single cost objective), required documentation includes:

- Personnel activity reports or equivalent documentation reflecting the actual activity of the employee
- Documentation must include the total activity for which the employee is compensated
- Report must be signed by the employee
- If lesson plans are used, they must be updated to show what was actually done that day and be signed by the teacher

While these are not new requirements, the documentation requirements can be very confusing. We recommend the Academy review their documentation procedures and compare the procedures to the State issued clarifications to ensure procedures are sufficient to comply with federal requirements.

CASH MANAGEMENT CHANGE

For many years, the 30-day rule said a school district/academy could request up to 30 days future cash needs when submitting a reimbursement request for federal grant funds. MDE recently sent a communication that beginning in the 2007 fiscal year, a school district/academy can only request up to 3 days future cash needs and that the MEGS system now reflects this change. We want to ensure that you are aware of this change, as future audits will be following these revised rules.

UNIFORM BUDGET AND ACCOUNTING ACT

Over 25 years ago, the State enacted P.A. 621-The Uniform Budgeting & Accounting Act. This act requires, among other things, that budgets be adopted for the general fund and special revenue funds. In addition, the act requires that Budgets be amended during the year if actual expenditures will exceed the amount budgeted. The penalty for failure to comply with this act can be recovery of the "unauthorized" expenditures from board members and administrators.

Recently the Department of Education announced a program to monitor District/Academy compliance with P.A. 621. The Department will begin by reviewing the June 30, 2005 annual audited financial statements and identifying any district or public school academy whose total expenditures exceed their budget by more than 1%. In addition the same test will be applied to other financing sources (uses).

If your Academy receives a violation notice from the Department of Education, you will have two weeks to provide the Department with information regarding your procedures to detect and prevent violations of the act. The Department will then decide, based on your response, on the appropriateness of referring the violation to the Attorney General's office for further consideration.

Obviously as you go forward it is strongly advised that the board and administration carefully monitor budget versus actual activity in order to prevent violations. We should note that enforcement could become even more stringent if the Department were to adopt the same violation criteria for revenues-something they are considering. The key factor in all this new enforcement effort is an emphasis on the board's responsibility to approve all expenditures via the budget process and avoid any deficit fund balance.

NEW AUDITING PRONOUNCEMENTS

Statement on Auditing Standards 103 - Audit Documentation: In December 2005, American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued a new Statement on Auditing Standards (SAS), which superseded SAS 96. The effective date is for audits of financial statements for periods ending on or after December 31, 2006 (fiscal year ending June 30, 2007 for the Academy).

This standard clarifies and increases the requirements that auditors must follow in obtaining, managing and retaining documentation that supports the audit opinion. It prescribes the form, content and extent of audit documentation necessary to support the audit work. It also redefines the method used to determine the dating of the auditors report and creates a "lock down" date for the audit file.

The substantive implication of this new standard is that it is likely that auditors will be more specific in their requests for information from the Academy and will require the Academy to be well prepared for audit prior to the start of the year end field work.

Statement on Auditing Standards 112 - Communication of Internal Control Related Matters Noted in an Audit: During May 2006, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued a new Statement on Auditing Standards (SAS), which superseded SAS 60. The effective date is for audits of financial statements for periods ending on or after December 31, 2006 (fiscal year ending June 30, 2007 for the Academy).

This standard establishes requirements and provides guidance to enhance the auditor's communication responsibility to the Board of Education concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The standard defines internal control deficiency, significant deficiency (this term replaces and therefore eliminates the term reportable condition), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the Board of Education in writing and will be made no later than 60 days following the release date of the auditor's report on the financial statements.

The substantive implication of this new standard is that it is likely that auditors will be required to officially report on more internal control related items than in the past. This is because the new audit standard lowers the threshold that is used to determine if a control deficiency must be officially reported.

Statement on Auditing Standards 104 to 111– The Risk Assessment Standards: The AICPA issued Statements on Auditing Standards (SAS 104 – SAS 111) that will substantially affect the auditing process. The effective date for the Academy's will be for the audit of the financial statements for after the year ending June 30, 2008. The ramifications for the audit process are substantial. At this point, the specific impact of these standards on our auditing process is being evaluated and we will continue to keep you apprised of the status.

Government Auditing Standards exposure draft (2006 revision): The Government Accountability Office (GAO) is finalizing its revisions to Government Auditing Standards (the Yellow book). These revisions will be issued before the end of 2006. All Academies in Michigan are required to be audited under the Yellow Book requirements in addition to the audit standards issued by the Auditing Standards Board. These Yellow Book changes will be effective for the June 30, 2007 audit. The planned changes are substantive and will impact audit approach, audit documentation and audit reporting. Some likely impacts of the changes include:

- Likely increased number of findings reported in the single audit report due to a lowered threshold of what must be reported
- Incorporation of audit documentation requirements
- Increased evaluation of compliance with auditor independence requirements

Once the changes are final, we will provide the Academy with information on how the changes will affect the audit process.

INTERNAL CONTROL OBSERVATIONS AND SUGGESTIONS

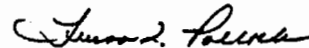
During our audit process we attempt to identify opportunities for the Academy to revise or update its system of internal control. The primary goal of internal control is to provide reasonable (as opposed to an absolute) protection to the Academy and its assets and financial information. We appreciate the Academy has limited resources and must look to maximize the benefits from the resources it utilizes. With that in mind, we offer the following for district consideration as it continues to improve its operations.

- Cash Receipts – Upon receipt of the daily mail at the Academy, consider having the receptionist or individual who opens the mail restrictively endorse checks that are received
- Journal Entry procedures – During our review of the Academy's journal entries, it was noted the journal entries are not numbered. We encourage the Academy to establish a numbering system for the entries. Additionally, we encourage the Academy to correlate journal entry numbers with supporting documentation retained to ensure that entries have adequate support and an specific trail to support transactions.

We appreciate the opportunity to serve Dove Academy, and we are committed to providing you with the best service possible. If you would like to discuss any of these items further, or if we can be of any further assistance to you, please contact us.

Very truly yours,

PLANTE & MORAN, PLLC



Teresa L. Pollock, CPA