

**DISCOVERY ARTS & TECHNOLOGY
PUBLIC SCHOOL ACADEMY
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2007**

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**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

2990 W. Grand Blvd., Suite 310
Detroit, MI 48202

(313) 873-7500
(313) 873-7502 (Fax)
www.alancyoung.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Discovery Arts & Technology Public School Academy
Inkster, Michigan

We have audited the accompanying financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Discovery Arts & Technology Public School Academy (the Academy) as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy'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 the 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, major fund, and the aggregate remaining fund information of Discovery Arts & Technology Public School Academy as of June 30, 2007 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule (identified in the table of contents) 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.

**DISCOVERY ARTS & TECHNOLOGY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

**Independent Auditors' Report
(Continued)**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Discovery Arts & Technology Public School Academy's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated October 15, 2007 on our consideration of Discovery Arts & Technology Public School Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Alan C. Young, Assoc.

October 15, 2007

**DISCOVERY ARTS & TECHNOLOGY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

Discovery Arts & Technology Academy is a K-5 Public School Academy located in Inkster, Michigan. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Discovery Arts & Technology Academy administration's discussion and analysis of the financial results for the year of operations ending June 30, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Academy-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

For the most part, the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the Academy's major instruction and instructional support activities are reported in the General Fund. Additional governmental activities are reported in their relevant Special Revenue Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Academy-wide Financial Statements:

The Academy-wide financial statements are maintained using the "full accrual" basis. They report all of the Academy's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the Academy are reported in the Statement of Net Assets of the Academy-wide financial statements.

**DISCOVERY ARTS & TECHNOLOGY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2006 and 2007:

	Net Assets Summary	
	<u>2006</u>	<u>2007</u>
Assets		
Current assets	<u>\$194,647</u>	<u>\$521,379</u>
Capital assets	240,370	240,370
Less: accumulated depreciation	<u>(11,129)</u>	<u>(43,828)</u>
Capital assets, net book value	<u>229,241</u>	<u>196,542</u>
Total assets	<u><u>423,888</u></u>	<u><u>717,921</u></u>
Liabilities		
Current liabilities	190,418	773,036
Long-term liabilities	<u>594,401</u>	<u>402,527</u>
Total liabilities	<u><u>784,819</u></u>	<u><u>1,175,563</u></u>
Net assets		
Invested in capital assets, net of related debt (deficit)	44,840	153,591
Unrestricted	<u>(405,771)</u>	<u>(611,233)</u>
Total net assets	<u><u>(\$360,931)</u></u>	<u><u>(\$457,642)</u></u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

During fiscal year ended June 30, 2007, the Academy's net assets decreased by \$96,711 as compared to a net decrease of \$360,931 in the prior year. The most significant difference between prior year and current year is the creation of a short term State Aid Anticipation Note at the end June 2007 in the amount of \$450,000 which will be paid in full by June 30, 2008. Another difference is an improvement in assets that shows a significant addition in the amount due from government units reflecting an increase in student enrollment from last year.

The Board and it's management continues to make the decision to make an investment in the future of the children of this community by offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools.

**DISCOVERY ARTS & TECHNOLOGY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

Results of Operations:

During the fiscal year 2006-07 the Academy's enrollment increased significantly by almost 100 students thereby more than doubling the revenue it received from state resources. You will also find state and federal grant revenues sources also increased significantly. The Academy also increased the educational services and programs it offered to students during the fiscal year to reflect the new income it received. For the fiscal year ended June 30, 2006 and 2007, the Academy-wide results of operations were:

	<u>2006</u>		<u>2007</u>	
	Amount	% of Total	Amount	% of Total
General revenue:				
State of Michigan aid - all sources	\$709,832	77.35%	\$1,501,434	79.59%
Other	2,351	0.26%	23,811	1.26%
Total general revenue	<u>712,183</u>	<u>77.61%</u>	<u>1,525,245</u>	<u>80.85%</u>
Program revenue:				
Charges for services	1,584	0.17%	1,825	0.10%
Operating grants - federal and state	203,878	22.22%	359,450	19.05%
Total program revenue	<u>205,462</u>	<u>22.39%</u>	<u>361,275</u>	<u>19.15%</u>
Total revenue	<u>917,645</u>	<u>100.00%</u>	<u>1,886,520</u>	<u>100.00%</u>
Expenses:				
Instruction and instructional service	456,896	35.73%	636,570	32.10%
Support services	751,081	58.74%	1,195,937	60.30%
Food service	59,470	4.65%	72,348	3.65%
Other unallocated	0	0.00%	7,752	0.39%
Interest on long-term debt	0	0.00%	37,925	1.91%
Depreciation (unallocated)	11,129	0.87%	32,699	1.65%
Total expenses	<u>1,278,576</u>	<u>100.00%</u>	<u>1,983,231</u>	<u>100.00%</u>
Increase (decrease) in net assets	<u>(\$360,931)</u>		<u>(\$96,711)</u>	

A. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- **Per Student, Foundation Allowance:** Annually, the State of Michigan sets the per student foundation allowance. The Discovery Arts & Technology Academy foundation allowance was \$7,385 per student for the 2006 - 2007 school year.
- **Student Enrollment:** The Academy's student enrollment for the fall count of 2006 - 2007 was 192 students. To calculate total state aid to be provided by the foundation allowance during the first two years of operations, the State uses a formula that uses a blended enrollment of 50% of the current year fall count and 50% of the current year winter count. For subsequent years, a blend of 75% of current year fall count and 25% of the previous year winter count is multiplied by the Academy's foundation allowance. Subsequent to June 30, 2007, preliminary student enrollments for 2007 - 2008 indicate that the 2007 fall student enrollment will be slightly lower than the 2006 - 2007 levels.

**DISCOVERY ARTS & TECHNOLOGY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

B. General Fund Budgetary Highlights

General Fund Operations

The Academy's expenditures and other financing from General Fund operations exceeded revenues and other financing sources by \$208,099 for the fiscal year ended June 30, 2007. During the fiscal year ended June 30, 2007, the board invested heavily in the future of the Academy by providing the services necessary to produce significant academic achievement gains and to ensure the families in this community that there is a serious dedication to ensuring that children receive a quality education. The Academy will continue to provide a safe, attractive and challenging educational environment that has and will continue to positively impact the youth in the Inkster community.

Final Budget vs. Actual

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Final Actual</u>
Revenues		
2005-2006	1,541,954	1,506,614
2006-2007	2,240,427	1,778,708
2007-2008 (projected)	2,105,542	
Expenditures		
2005-2006	\$1,541,954	1,502,385
2006-2007	\$2,225,971	1,986,805
<u>2007-2008 (projected)</u>	<u>\$2,105,115</u>	

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Discovery Arts & Technology Academy amends its budget periodically as needed during the school year. For the fiscal year 2006 - 2007, the budget was amended in December 2006 and June 2007. The June 2007 budget amendment was the final budget for the fiscal year. The Discovery Arts & Technology Academy Board does not budget for expenditures covered by grants or for the grant revenue until an award allocation is received. The General Fund does not budget for debt financed capital outlays, if applicable, in the original budget.

**DISCOVERY ARTS & TECHNOLOGY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

Change from Original to Final General Fund Budget

Revenues:

Total Revenues - Original Budget	\$1,898,585
Total Revenues - Final Budget	<u>2,240,427</u>
Increase in Budgeted Revenues	<u><u>\$341,842</u></u>

The Academy's final general fund revenues were less than the final budget by \$461,719 a variance of 20.60%. This variance was primarily a result of the operational loan in the amount of \$260,000 not approved and unspent state and federal grant allocations awarded to the Academy. The state and federal grant allocations are available for carryover and it is anticipated that the necessary carryover applications will be filed to ensure grant funds can be fully utilized before the end of the grant period.

The following are the significant changes in revenues from the original budget:

- Original budget had estimated an enrollment of 150 students and fall 2006 actual enrollment was 192.
- Adjustment to actual grant allocations since estimates were used in the original budget.
- Decrease in operational loan as a result of the decrease in enrolled students.

Expenditures:

The Academy's budget for expenditures changed as follows during the year:

Total Expenditures - Original Budget	\$1,898,585
Total Expenditures - Final Budget	<u>2,225,971</u>
Increase in Budgeted Expenditures	<u><u>\$327,386</u></u>

The Academy's actual expenditures were less than final budget by \$239,166 a variance of 10.74%. This variance was primarily a result from under spending federal grant allocations described above under the explanation of the revenue variance.

The following are the significant changes in expenditures from the original budget:

- Increase instructional staff to reflect the increase in students enrolled.
- Adjustment in grant expenditures as final grant allocations were awarded.
- Increased authorizer and management fees resulting from increase in state aid and state/federal grant allocations.
- Decreased line-items not controlled by grants when-ever possible to reduce expenditures to anticipated levels in general fund.

**DISCOVERY ARTS & TECHNOLOGY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's net investment in capital assets decreased by \$32,699 during the fiscal year.

This can be summarized as follows:

	Beginning Balance 6/30/06	Additions	Disposals	Ending Balance 6/30/07
Depreciable capital assts	\$240,370	\$0	\$0	\$240,370
Less: accumulated depreciation	<u>(11,129)</u>	<u>(32,699)</u>	<u>0</u>	<u>(43,828)</u>
Net investment in capital assets	<u>\$229,241</u>	<u>(\$32,699)</u>	<u>\$0</u>	<u>\$196,542</u>

B. Depreciation Expense

GASB 34 requires Public School Academies to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets in the entity wide financial statements. Depreciation is not recognized in the fund financial statements and has been noted as a reconciling item in the Academy's financial statements.

For fiscal year ended June 30, 2007, the net increase in accumulated depreciation was \$32,699.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

C. Debt, Principal Payments

A summary of long-term debt service activities is as follows.

	Beginning Balance 6/30/06	New Financings	Principal Payments	Balance 6/30/2007
Capital lease obligations	\$184,401	\$0	\$141,450	\$42,951
Notes payable	<u>410,000</u>	<u>0</u>	<u>0</u>	<u>410,000</u>
Total	<u>\$594,401</u>	<u>\$0</u>	<u>\$141,450</u>	<u>\$452,951</u>

**DISCOVERY ARTS & TECHNOLOGY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007
(Continued)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2007-08 Fiscal Year required certain estimates and assumptions be made as the budget was being drafted. These estimates and assumptions were based on current information available to the board and management. Some key factors and estimates used in the 2007-08 budget preparation process include:

- The State Aid foundation had been estimated to be \$7,385 per pupil;
- Enrollment projections of 235 students in grades K-6;
- Teaching staff, at a maximum, would provide one teacher for every 24 students;
- Benefit costs would be based on group coverage rates through the Michigan Chamber of Commerce.

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 School Districts and Public School Academies. The State periodically holds revenue-estimating conferences to estimate what the State's available resources will be throughout the remainder of its fiscal year. In spite of the current economic uncertainties we remain cautiously confident that the State will find the resources to sufficiently fund current appropriations.

CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, Discovery Arts & Technology Academy, 27355 Woodward Road, Inkster, Michigan.

DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$105,093
Due From Other Governmental Units (Note 4)	408,414
Prepaid Expenses	7,872
Capital Assets, Net of Accumulated Depreciation (Note 5)	196,542
Total Assets	717,921
 Liabilities	
Accounts Payable	143,071
Accrued Payroll and Benefits	59,341
Accrued Interest Payable	37,925
Note Payable (Note 9)	450,000
Deferred Revenue (Note 8)	32,275
Long-Term Liabilities (Note 6)	
Due Within One Year	50,424
Due in More Than One Year	402,527
Total Liabilities	1,175,563
 Net Assets	
Invested in Capital Assets, Net of Related Debt	153,591
Unrestricted	(611,233)
Total Net Assets	(\$457,642)

The accompanying notes are an integral part of these financial statements.

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (expenses) Revenues and changes in Net Assets
Governmental Activities				
Basic Instructions	\$636,570	\$0	\$169,359	(\$467,211)
Supporting Services				
Pupil Support Services	64,654	0	1,442	(63,212)
Instructional Staff Services	15,812	0	2,469	(13,343)
Support Service Technology	5,120	0	4,620	(500)
General & Executive Administration Services	286,228	0	0	(286,228)
School Administration Services	112,362	0	4,718	(107,644)
Business Services	580	0	0	(580)
Operations and Maintenance	599,052	0	0	(599,052)
Pupil Transportation Services	50,208	0	0	(50,208)
Central Services	61,921	0	118,855	56,934
Food Services	72,348	661	57,987	(13,700)
Child Care Services	7,752	1,164	0	(6,588)
Depreciation (unallocated)	32,699	0	0	(32,699)
Interest on Long-Term Debt	37,925	0	0	(37,925)
Total Governmental Activities	1,983,231	1,825	359,450	(1,621,956)
			<u>General Revenues</u>	
			State Aid - Formula Grants	1,501,434
			Other Revenue	23,811
			Total General Revenues	1,525,245
			Change in Net Assets	(96,711)
			Net Assets - July 1, 2006	(360,931)
			Net Assets - June 30, 2007	(\$457,642)

The accompanying notes are an integral part of these financial statements.

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

ASSETS

	General Fund	Other Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$105,093	\$0	\$105,093
Due From Other Governmental Units (Note 4)	401,457	6,957	408,414
Due From Other Fund	6,957	0	6,957
Prepaid Expenses	7,872	0	7,872
Total Assets	\$521,379	\$6,957	\$528,336

LIABILITIES AND FUND BALANCES

Liabilities

Accounts Payable	137,071	0	137,071
Accrued Payroll and Benefits	57,901	0	57,901
Note Payable (Note 9)	450,000	0	450,000
Due to Other Fund	0	6,957	6,957
Deferred Revenue (Note 8)	80,277	0	80,277
Total Liabilities	725,249	6,957	732,206

Fund Balances

Unreserved	(203,870)	0	(203,870)
Total Fund Balances	(203,870)	0	(203,870)
Total Liabilities and Fund Balances	\$521,379	\$6,957	\$528,336

The accompanying notes are an integral part of these financial statements.

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

Total Fund Balances - Governmental Funds		(\$203,870)
<p>Amounts Reported for Governmental Activities in the Statement of Net Assets are different because</p> <p>Capital Assets used in Governmental Activities are not Financial Resources and therefore, not Reported as Assets in Governmental Funds</p>		
Cost of Capital Assets	240,370	
Accumulated Depreciation	<u>(43,828)</u>	196,542
<p>Long Term Liabilities are not Payable in the Current Period and therefore, are not Reported as Liabilities in the Governmental Funds</p>		
		(452,951)
<p>Amounts that are not available to liquidate current obligations are reported as Deferred Revenue in Government Funds</p>		
		48,002
<p>Portion of management fees payable not recorded in Governmental Funds due to associated revenue not meeting the availability criteria</p>		
		(7,440)
<p>Accrued interest payable is not included as a payable in the Governmental Funds</p>		
		<u>(37,925)</u>
Total Net Assets - Governmental Activities		<u><u>(\$457,642)</u></u>

The accompanying notes are an integral part of these financial statements.

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue			
Federal Sources	\$301,463	\$56,484	\$357,947
State Sources	1,453,432	1,503	1,454,935
Local Sources	23,811	1,825	25,636
Total Revenue	1,778,706	59,812	1,838,518
Expenditures			
Basic Instructions	636,570	0	636,570
Supporting Services:			
Pupil Support Services	64,654	0	64,654
Instructional Staff Services	15,812	0	15,812
Support Service Technology	9,820	0	9,820
General / Executive Administration Services	278,788	0	278,788
School Administration Services	112,362	0	112,362
Business Services	578	0	578
Operations and Maintenance	603,720	0	603,720
Pupil Transportation Services	50,208	0	50,208
Central Services	194,005	0	194,005
Food Services	0	72,348	72,348
Child Care Services	0	7,752	7,752
Total Expenditures	1,966,517	80,100	2,046,617
Excess (Deficiency) of Revenue over Expenditures	(187,811)	(20,288)	(208,099)
Other Financing Sources (Uses)			
Operating Transfers - In	0	20,288	20,288
Operating Transfers - Out	(20,288)	0	(20,288)
Total Other Financing Sources(Uses)	(20,288)	20,288	0
Net Change in Fund Balances	(208,099)	0	(208,099)
Fund Balances - July 1, 2006	4,229	0	4,229
Fund Balances - June 30, 2007	(\$203,870)	\$0	(\$203,870)

The accompanying notes are an integral part of these financial statements.

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Net Change in Fund Balances - Total Governmental Funds (\$208,099)

Amounts Reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report Capital Outlay as Expenditure in the Statement of Activities, these Costs are Allocated over their Estimated Useful Lives as Depreciation

Depreciation Expense	(32,699)	(32,699)
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Revenue is Reported in the Statement of Activities at the time it is earned, without regard to timeliness of collection		48,002
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Management Fees associated with revenue not meeting the availability criteria are recorded only in Statement of Activities		(7,440)
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Payments made in the current year toward Capital Leases		141,450
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Accrued interest is recorded in the Statement of Activities when incurred; it is not recorded in the Governmental Funds until paid		(37,925)
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Change in Net Assets - Governmental Activities		(\$96,711)
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The accompanying notes are an integral part of these financial statements.

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Discovery Arts & Technology Public School Academy (the "Academy") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

Discovery Arts & Technology Public School 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.

On August 19, 2005 the Academy entered into an eight year contract with Bay Mills Community College 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 Bay Mills Community College 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 pays the Bay Mills Community College Board of Trustees 3 percent of State Aid as an administrative fee. The total administrative fees paid in 2006-07 to the Bay Mills Community College Board of Trustees were approximately \$45,624.

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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.

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide Financial 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 to related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges; (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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The 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.

DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Fund Financial Statements – (Continued)

The Academy also receives revenues from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require accounting to 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 the Academy’s primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the Academy reports the following fund types:

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes.

The Special Revenue Funds are used to segregate, for administrative purposes, the transactions of particular activities from regular revenue and expenditure accounts. The Academy maintains full control of these funds. The Special Revenue Funds maintained by the Academy are the Food Service and Child Care Service funds.

Assets, Liabilities, and Net Assets or Equity

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

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Capital Assets – Capital assets, which include equipment & furniture, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000. 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. Cost 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.

Equipment and furniture are depreciated using the straight-line method over the following useful lives:

Furniture and other Equipment	5 - 7 years
-------------------------------	-------------

MPSERS Liability – The Academy contracted with Mosaica Education, Inc. to provide all staffing personnel during the year under audit. Consequently, all staffing costs are 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 2007, and no such funding was made for the year.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Balance – In the 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 – Comparative financial data is not included in the Academy's financial statements.

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.

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2007
 (Continued)**

2) **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, and object. 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 object 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 districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy increased budgeted amounts during the year primarily in response to anticipated changes in various funded programs, capital outlay, and maintenance operations.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriating in Budgeted Funds

During the year the Academy incurred expenditures in the general fund, which were used in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>
Support Service Technology	\$0	\$9,820
Central Services	36,303	194,005

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the Academy’s opinion, any disallowed claims will not have a material effect on the financial statements as of and for the year ended June 30, 2007.

DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

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 deposit of its funds.

The investment policy adopted by the Board has authorized investments as listed in the State statutory authority as listed above.

The Academy's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of 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 deposit for custodial credit risk. At the year end, the Academy deposit balance of \$654,728 had \$554,728 that was not covered by federal depository insurance.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in event of the failure of counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Academy's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by the law. The Academy does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that value of investments will decrease as a result of a rise in interest rates. The Academy's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The Academy's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with Academy's cash requirements.

DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

3) **DEPOSITS AND INVESTMENTS – (Continued)**

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy's investment policy does not further limit its investment choices, the Academy held no such investment at June 30, 2007.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and Academy's policy prohibit investment in foreign currency.

4) **DUE FROM OTHER GOVERNMENTAL UNITS**

Receivables as of year-end for the Academy include approximately \$275,000 in State Aid receivable and approximately \$133,000 in Federal grants receivable.

5) **CAPITAL ASSETS**

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

	<u>Balance as on July 1, 2006</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance as on June 30, 2007</u>
Capital Assets Being Depreciated				
Equipment & Furniture	\$240,370	\$0	\$0	\$240,370
Subtotal	<u>240,370</u>	<u>0</u>	<u>0</u>	<u>240,370</u>
Accumulated Depreciation				
Equipment & Furniture	(11,129)	(32,699)	0	(43,828)
Subtotal	<u>(11,129)</u>	<u>(32,699)</u>	<u>0</u>	<u>(43,828)</u>
Net Governmental Capital Assets	<u><u>\$229,241</u></u>	<u><u>(\$32,699)</u></u>	<u><u>\$0</u></u>	<u><u>\$196,542</u></u>

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

DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

6) **LONG-TERM LIABILITIES**

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Promissory Note- Mosaica Education, Inc.	\$410,000	\$0	\$0	\$410,000	\$25,000
Capital Lease Obligations	184,401	0	141,450	42,951	25,424
Total Governmental Activities	\$594,401	\$0	\$141,450	\$452,951	\$50,424

The Academy leases various equipment, furniture and computers under capital leases expiring through March 2009. The assets under capital leases are recorded at the lower of present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lower of their related lease terms or their estimated productive lives.

Capital lease obligations are summarized as follows:

Lease #1 – The Academy has leased computers under a capital lease for a period of 36 months through March 2009. The monthly lease payment is \$2,062.56.

Other Long-term Obligations – The Academy has acquired software under a payment plan maturing in the fiscal year end 2008. The annual required payment is \$4,700.

Annual payments under leases and other obligations as of June 30, 2007 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$25,424	\$4,026	\$29,450
2009	17,527	1,030	18,557
2010	0	0	0
2011	0	0	0
2012	0	0	0
	<u>\$42,951</u>	<u>\$5,056</u>	<u>\$48,007</u>

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

6) LONG-TERM LIABILITIES – (Continued)

In fiscal year 2005-06, the Academy entered into an agreement to engage in a long-term loan with Mosaica Education, Inc. This loan was to be undertaken to establish a long-term repayment schedule for current obligations due to Mosaica Education, Inc. at June 30, 2006. The date of the note is June 30, 2006 and it was signed on November 14, 2006. The note was for \$410,000, carries interest at a rate of 9.25%, and has the following payment schedule:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	25,000	41,085	66,085
2009	55,000	35,613	90,613
2010	80,000	30,525	110,525
2011	110,000	23,125	133,125
2012	140,000	12,950	152,950
	<u>\$410,000</u>	<u>\$143,298</u>	<u>\$553,298</u>

7) RELATED PARTY TRANSACTIONS

The Academy has entered into a contract with Mosaica Education, Inc., under which Mosaica Education, Inc. assumes management responsibility for the operation of the Academy including educational approach and methodology, discipline, and all financial aspects of the Academy. Mosaica Education, Inc. is a related party with the Academy because Mosaica Education, Inc. founded the Academy. The management contract may be terminated under various circumstances, including but not limited to minimum student outcomes on standardized tests, as defined in the management agreement. The management contract provides for payment to Mosaica Education, Inc. of 12.5% of revenues received by the Academy. Total payments to Mosaica Education, Inc. under this contract were \$226,290 for the year ended June 30, 2007. The Academy has also entered into a long-term loan agreement with Mosaica Education, Inc. The details of this agreement are described in Note 6, long-term liabilities. No payments of principal or interest were scheduled to be made under this agreement for the year ended June 30, 2007.

8) DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are 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. At the end of the current fiscal year, the Academy had \$32,275 that was received but not yet earned and \$48,002 that was earned but not available to liquidate the liabilities of the current period for a total deferred revenue of \$80,277.

9) NOTE PAYABLE

On June 28, 2007, the Academy obtained a note for \$450,000 in anticipation of the State Aid payment for fiscal year 2007-08. The note carries a 5% interest rate and is payable in nine monthly installments of \$52,472 commencing in October, 2007.

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

2990 W. Grand Blvd., Suite 310
Detroit, MI 48202

(313) 873-7500
(313) 873-7502 (Fax)
www.alancyoung.com

**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
Discovery Arts & Technology Public School Academy
Inkster, Michigan

We have audited the Financial Statements of the governmental activities, major fund, and the aggregate remaining fund information of Discovery Arts & Technology Public School Academy as of and for the year ended June 30, 2007, which collectively comprise Discovery Arts & Technology Public School Academy's basic financial statements and have issued our report thereon dated October 15, 2007. 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 Discovery Arts & Technology Public School Academy'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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies or material weaknesses.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards
(Continued)

Compliance

As part of obtaining reasonable assurance about whether Discovery Arts & Technology Public School 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Discovery Arts & Technology Public School Academy in a separate letter dated October 15, 2007.

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

Alan C. Young, Assoc.

October 15, 2007

REQUIRED SUPPLEMENTAL INFORMATION

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Federal Sources	\$248,606	\$416,880	\$301,463	(\$115,417)
State Sources	1,179,372	1,530,750	1,453,432	(77,318)
Local Sources	28,797	32,797	23,811	(8,986)
Total Revenue	<u>1,456,775</u>	<u>1,980,427</u>	<u>1,778,706</u>	<u>(201,721)</u>
Expenditures				
Instructional Services	598,413	734,526	636,570	(97,956)
Supporting Services:				
Pupil Support Services	63,593	64,773	64,654	(119)
Instructional Staff Services	770	79,810	15,812	(63,998)
Support Service Technology	0	0	9,820	9,820
General / Executive Administration Services	235,105	309,968	278,788	(31,180)
School Administration Services	175,760	115,630	112,362	(3,268)
Business Services	3,700	2,650	578	(2,072)
Operations and Maintenance	657,644	621,700	603,720	(17,980)
Pupil Transportation Services	47,000	61,000	50,208	(10,792)
Central Services	3,600	36,303	194,005	157,702
Community Services	0	750	0	(750)
Total Expenditure	<u>1,785,585</u>	<u>2,027,110</u>	<u>1,966,517</u>	<u>(60,593)</u>
Excess (Deficiency) of Revenue over Expenditures	(328,810)	(46,683)	(187,811)	(141,128)
Other Financing Sources (Uses)				
Incoming Transfers and Other Transactions	441,810	260,000	0	(260,000)
Outgoing Transfers and Other Transactions	<u>(113,000)</u>	<u>(198,861)</u>	<u>(20,288)</u>	<u>178,573</u>
Total Other Financing Sources (Uses)	<u>328,810</u>	<u>61,139</u>	<u>(20,288)</u>	<u>(81,427)</u>
Net Change in Fund Balance	0	14,456	(208,099)	(222,555)
Fund Balance - July 1, 2006	<u>4,229</u>	<u>4,229</u>	<u>4,229</u>	<u>0</u>
Fund Balance - June 30, 2007	<u>\$4,229</u>	<u>\$18,685</u>	<u>(\$203,870)</u>	<u>(\$222,555)</u>

The accompanying notes are an integral part of these financial statements.

OTHER SUPPLEMENTAL INFORMATION

**DISCOVERY ARTS & TECHNOLOGY PUBLIC SCHOOL ACADEMY
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

Revenue	Food Services	Child Care Program	Total
Local Sources	\$661	\$1,164	\$1,825
State Sources	1,503	0	1,503
Federal Sources	56,484	0	56,484
Total Revenues	<u>58,648</u>	<u>1,164</u>	<u>59,812</u>
Expenditures			
Food Service	72,348	0	72,348
Child Care Services	0	7,752	7,752
Total Expenditures	<u>72,348</u>	<u>7,752</u>	<u>80,100</u>
Excess (Deficiency) of Revenue Over Expenditures	(13,700)	(6,588)	(20,288)
Other Financing Sources			
Operating Transfers	<u>13,700</u>	<u>6,588</u>	<u>20,288</u>
Excess of Revenues Over Expenditures and Other Financing Sources	0	0	0
Fund Balance - July 1, 2006	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance - June 30, 2007	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

The accompanying notes are an integral part of these financial statements.

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

2990 W. Grand Blvd., Suite 310
Detroit, MI 48202

(313) 873-7500
(313) 873-7502 (Fax)
www.alancyoung.com

October 15, 2007

To the Board of Directors of
Discovery Arts & Technology
Public School Academy
Inkster, Michigan

In planning and performing our audit of the financial statements of Discovery Arts & Technology Public School Academy (the School) for the year ended June 30, 2007, we considered the School's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of a matter that has an opportunity for strengthening internal controls and operating efficiency. Exhibit A, that accompanies this letter summarizes our comment and suggestion regarding that matter. This letter does not affect our report on the financial statements of the School.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various personnel of the School, and we will be pleased to discuss this in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Sincerely,



Alan C. Young & Associates, P.C.
Certified Public Accountants

1) EXPENSES IN EXCESS OF BUDGET

For the year ended June 30, 2007, the School's expenses exceeded the final budgeted level for support service technology and central services.

We recommend that the School improve their efforts to match their budgets with the appropriate areas expenditures will be incurred. In total, the School's expenditures were less than the amount budgeted. However, there were some budget overages within the individual line items.