

PONTIAC ACADEMY FOR EXCELLENCE
Pontiac, Michigan

FINANCIAL STATEMENTS
June 30, 2007

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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

November 9, 2007

To the Board of Directors
Pontiac Academy for Excellence

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Pontiac Academy for Excellence 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 Pontiac Academy for Excellence'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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of the Pontiac Academy for Excellence 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.

To the Board of Directors
Pontiac Academy for Excellence
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In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 2007 on our consideration of the Academy's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. 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.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pontiac Academy for Excellence's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Pontiac Academy for Excellence. The required supplemental information is required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information, the other supplemental information and schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gardner, Provenzano, Schaumman & Thomas, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

This section of the Pontiac Academy for Excellence annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2007. Please read it in conjunction with the Academy's basic 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 Pontiac Academy for Excellence 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 statement by providing information about the Academy's funds.

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

Basic Financial Statements

Academy-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information – General Fund

Other Supplemental Information

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.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Reporting the Academy as a Whole – Academy-wide Financial Statements
(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 non-financial 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, community, food service and athletics. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Fund – Fund Financial Statements

The Academy's fund financial statements provide detailed information about the individual funds – not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes other funds to help it control and manage money for particular purposes (the Food Service Fund, for example).

Governmental Fund – 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.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Academy as a Whole

Table 1

Assets	2007	2006
Current and other assets	\$ 1,788,862	\$ 1,549,463
Capital assets -		
Net of accumulated depreciation	769,920	789,382
Total Assets	<u>2,558,782</u>	<u>2,338,845</u>
 Liabilities		
Current liabilities	861,212	791,933
Noncurrent liabilities	-	1,068
Total Liabilities	<u>861,212</u>	<u>793,001</u>
 Net assets		
Invested in capital assets -		
Net of related debt	769,920	773,108
Unrestricted	927,650	772,736
Total Net Assets	<u>\$ 1,697,570</u>	<u>\$ 1,545,844</u>

The above analysis focuses on the net assets (see Table 1). The Academy's net assets were \$1,697,570 at June 30, 2007. Capital assets, net of related debt totaling \$769,920, compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. At June 30, 2007, there was no debt on capital assets. The remaining amount of net assets \$927,650 was unrestricted.

The \$927,650 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.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The Academy as a Whole (continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2007 and 2006.

Table 2	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Revenue		
Program revenue:		
Grants	\$ 2,236,513	\$ 1,648,529
Charge for services	6,314	-
General revenue		
State foundation allowance	7,343,308	6,750,281
Other	456	284
Interest	22,413	-
Total Revenue and Special Item	<u>9,609,004</u>	<u>8,399,094</u>
Function/Program expenses		
Instruction	4,339,844	3,770,806
Support services	4,097,334	3,297,413
Food services	553,442	569,995
Athletics	141,443	120,522
Community services	122,889	16,475
Interest on long-term debt	7,696	10,745
Depreciation (unallocated)	194,630	175,738
Total function/program expenses	<u>9,457,278</u>	<u>7,961,694</u>
Increase (decrease) in Net Assets	<u>\$ 151,726</u>	<u>\$ 437,400</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$9,457,278. Certain activities were partially funded by other governments that subsidized certain programs with \$2,236,513 in grants. We paid for the remaining "public benefit" portion of our governmental activities with \$7,343,308 in state foundation allowance, and with our other revenues.

The Academy experienced an increase in net assets of \$151,726. The increase in net assets was mainly due to tighter controls on spending and an increased effort in lowering expenses. The Academy was able to control costs in the food service program by putting procedures in place that increased efficiency in purchasing. In addition, the Academy bid out major purchases resulting in lower costs for those purchases.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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 governmental funds reported a combined fund balance of \$927,650, which is an increase of \$154,914 in the general fund from last year.

Although revenues were not as high as anticipated and transfers to other funds were higher than budgeted, the general fund balance still increased. This increase was mostly due to less than anticipated expenditures in capital outlay for the library, less personnel costs and some activities not occurring throughout the year. In addition, an on site accountant was brought in to help control costs.

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. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

First Versus Final Budget

Expenditures for the final budgets were adjusted as follows:

- Basic programs expenditures were decreased due to lower costs for medical coverage. In addition, several middle school positions that had been budgeted for were not filled which caused salary and related benefit costs to be lower than anticipated.
- In the added needs function, several positions from the previous year were vacated and not filled. Also, the Academy was able to purchase software and supplies for less than originally budgeted.

Final Budget Versus Actual Results

The significant variance in revenue is as follows:

- The variance of \$64,956 in federal revenue was due to Title I revenue for 2007-2008 year inadvertently budgeted for the 2006-2007 year.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Final Budget Versus Actual Results (continued)

Significant variances in expenditures are as follows:

- The variance of \$117,358 in basic program staff was due to a combination of several factors. Staff absences were far greater than anticipated, including several staff members taking a leave of absence, causing substitute teacher expenditures to be much higher than anticipated. In addition, graduation costs for 5th grade, 8th grade and 12th grade exceeded estimated costs.
- The transfer to food service was more than anticipated due to a higher cost for food and less federal revenue than anticipated. In addition, athletic expenditures were higher than budgeted due to the adding of additional sports.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the Academy had \$769,920 invested in capital assets. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$19,462, or 2.4%, from last year.

	<u>2007</u>	<u>2006</u>
Leasehold improvements	\$ 220,790	\$ 213,510
Furniture and equipment	1,523,635	1,439,797
Computer equipment	<u>264,752</u>	<u>180,702</u>
Total Capital Assets	2,009,177	1,834,009
Less Accumulated Depreciation	<u>1,239,257</u>	<u>1,044,627</u>
Net Capital Assets	<u>\$ 769,920</u>	<u>\$ 789,382</u>

This year's additions of \$175,168 included various furniture, equipment, and computers to equip new offices, classrooms and a media center. No new debt was issued for any additions.

For the 2007-2008 year, the Academy has plans for approximately \$80,000 in capital outlay to further equip newly constructed areas.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Debt

At the end of this year, the Academy had no long-term debt outstanding versus \$16,274 in the previous year. Long-term debt consisted solely of capital lease obligations.

We present more detailed information about our long-term liabilities in the notes to the financial statements.

At this time, there are no plans for any additional long-term debt.

Economic Factors and Next Year's Budgets and Rates

Many factors are considered when setting the Academy's budget for the 2007-2008 fiscal year. One of the biggest 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 2007-2008 year is 25 percent of the February 2007 student count, and 75 percent of the September 2007 student count. The 2007-2008 budget was adopted in June as based on a projection of what the Academy's September student count would be. The actual September student count was slightly higher than the estimate used for the budget, and as such the revenue from the state foundation allowance will be slightly higher than anticipated. Approximately 80 percent of the Academy's revenue is from the foundation allowance. As a result the budget has been amended as required by state law, based on the actual student count.

BASIC FINANCIAL STATEMENTS

Pontiac Academy for Excellence
 District Wide
 Statement of Net Assets
 June 30, 2007

	Governmental Activities
Assets	
Cash & cash equivalents	\$ 134,659
Due from other governmental units	1,623,933
Prepays	30,270
Capital assets less accumulated depreciation	769,920
Total Assets	2,558,782
 Liabilities	
Accounts payable	303,581
Accrued liabilities	489,121
Deferred revenue	68,510
Total Liabilities	861,212
 Net Assets	
Invested in capital assets net of related debt	769,920
Unrestricted	927,650
Total Net Assets	\$ 1,697,570

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

Pontiac Academy for Excellence
 District Wide
 Statement of Activities
 For the Year Ended June 30, 2007

Functions/Programs	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 4,339,844	\$ -	\$ 1,373,136	\$ (2,966,708)	
Support services	4,097,334	-	440,640	(3,656,694)	
Community services	122,889	-	-	(122,889)	
Food services	553,442	6,314	422,737	(124,391)	
Athletics	141,443	-	-	(141,443)	
Interest on long-term debt	7,696	-	-	(7,696)	
Depreciation (unallocated)	194,630	-	-	(194,630)	
Totals	\$ 9,457,278	\$ 6,314	\$ 2,236,513	(7,214,451)	
General revenues:					
State aid - unrestricted				7,343,308	
Other				456	
Interest				22,413	
Total General Revenues				7,366,177	
Change in Net Assets				151,726	
Net Assets - Beginning of Year				1,545,844	
Net Assets - End of Year				\$ 1,697,570	

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

Pontiac Academy for Excellence
Balance Sheet
June 30, 2007

	<u>General Fund</u>	<u>Food Service</u>	<u>Athletics</u>	<u>Totals</u>
<u>Assets</u>				
Cash & cash equivalents	\$ 134,659	\$ -	\$ -	\$ 134,659
Due from other governmental units	1,623,933	-	-	1,623,933
Prepaid expenditures	30,270	-	-	30,270
Total Assets	<u>\$ 1,788,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,788,862</u>
<u>Liabilities and Fund Balance</u>				
Liabilities				
Accounts payable	\$ 303,581	\$ -	\$ -	\$ 303,581
Accrued liabilities	489,121	-	-	489,121
Deferred revenue	68,510	-	-	68,510
Total Liabilities	<u>861,212</u>	<u>-</u>	<u>-</u>	<u>861,212</u>
Fund Balance				
Unreserved and undesignated	927,650	-	-	927,650
Total Fund Balance	<u>927,650</u>	<u>-</u>	<u>-</u>	<u>927,650</u>
Total Liabilities and Fund Balance	<u>\$ 1,788,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,788,862</u>

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

Pontiac Academy for Excellence
Reconciliation of Balance Sheet of Governmental Funds To Net Assets
June 30, 2007

Total Fund Balances - Governmental Funds	\$ 927,650
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 funds.	
The cost of the capital assets is	2,009,177
Accumulated depreciation is	(1,239,257)
Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ 1,697,570</u>

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

Pontiac Academy for Excellence
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2007

	General	Food Service	Athletics	Totals
Revenue				
Local	\$ 112,630	\$ 6,314	\$ -	\$ 118,944
State	8,078,858	4,638	-	8,083,496
Federal	988,465	418,099	-	1,406,564
Total Revenue	<u>9,179,953</u>	<u>429,051</u>	<u>-</u>	<u>9,609,004</u>
Expenditures				
Instruction				
Basic programs	3,213,258	-	-	3,213,258
Added needs	1,240,402	-	-	1,240,402
Support Services				
Pupil	358,845	-	-	358,845
Instructional staff	365,216	-	-	365,216
General administration	853,409	-	-	853,409
School administration	366,943	-	-	366,943
Business	185,945	-	-	185,945
Operation and maintenance	1,799,043	-	-	1,799,043
Pupil transportation services	100,103	-	-	100,103
Central services	129,182	-	-	129,182
Community services	122,889	-	-	122,889
Food service	-	553,442	-	553,442
Athletics	-	-	141,443	141,443
Debt service	23,970	-	-	23,970
Total Expenditures	<u>8,759,205</u>	<u>553,442</u>	<u>141,443</u>	<u>9,454,090</u>
Excess (Deficiency) of Revenues over Expenditures	420,748	(124,391)	(141,443)	154,914
Other Financing Sources (Uses)				
Sources	-	124,391	141,443	265,834
Uses	(265,834)	-	-	(265,834)
Total Other Financing Sources (Uses)	<u>(265,834)</u>	<u>124,391</u>	<u>141,443</u>	<u>-</u>
Net Change in Fund Balance	154,914	-	-	154,914
Fund Balance, Beginning	772,736	-	-	772,736
Fund Balance, Ending	<u>\$ 927,650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 927,650</u>

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

Pontiac Academy for Excellence
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balance of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2007

Net Change in Fund Balances - Governmental Funds	\$ 154,914
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.</p>	
Depreciation expense	(194,630)
Capital outlay	175,168
<p>Repayment of principal is an expenditure in the governmental funds, but not in the statement of activities</p>	
Capital leases	16,274
Change in Net Assets of Governmental Activities (Academy Wide)	\$ 151,726

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

Pontiac Academy for Excellence
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2007

Assets	
Cash, student organizations	\$ 269
Total Assets	<u>\$ 269</u>
Liabilities	
Due to student organizations	\$ 269
Total Liabilities	<u>\$ 269</u>

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

NOTES TO FINANCIAL STATEMENTS

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1--Summary of Significant Accounting Policies

The accounting policies of Pontiac Academy for Excellence (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.

On January 27, 1997, the Academy entered into a five-year contract with the Saginaw Valley State University Board of Trustees to charter a public school academy, which was subsequently extended through June 30, 2009. 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 Saginaw Valley State 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 pays the Saginaw Valley State University Board of Trustees three percent of the state aid foundation as administrative fees. The total administrative fees for the year ended June 30, 2007, to the Saginaw Valley State University Board of Trustees was \$220,299.

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

Academy-wide and Fund Financial Statements

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

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1--Summary of Significant Accounting Policies (continued)

Academy-wide and Fund Financial Statements (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 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. Major individual governmental funds are normally reported as separate columns in the fund financial statements. The Academy has elected to show all funds. Neither the food service nor the athletics fund would have been determined as major funds.

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.

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.

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.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1--Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and accrual basis of accounting. The Student Activities Agency Fund is maintained to record the transactions of the student group for school and school related purposes. The fund is segregated and held in trust for the students.

The Academy reports the following major governmental 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 type:

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Academy's special revenue funds include the food services fund and athletics fund. Any operating deficit generated by these activities is the responsibility of the general fund.

Assets, Liabilities, and Net Assets or Equity

Cash – Cash includes cash on hand and demand deposits.

Receivables – The Academy receivables consist of revenue earned at year-end but not yet received.

Prepaid – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

Capital Assets – Capital assets, which include leasehold improvements, furniture and fixtures, and computer 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 \$500 and an estimated useful life in excess of one year. 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.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1--Summary of Significant Accounting Policies (continued)

Leasehold improvements, furniture and equipment, and computer equipment are depreciated using the straight-line method over the following useful lives:

Leasehold improvements	6-12 years
Furniture and other equipment	7 years
Computer equipment	5 years

Long-term Obligations – Consisted of the Academy's capital leases. At June 30, 2007 all capital leases were paid in full.

Accounts Payable – Accounts payable consists of items which the Academy benefited during the current year but has not yet paid.

Accrued Liabilities – Accrued liabilities are items related to personnel costs.

Deferred Revenue – Deferred revenue represents amounts for which the Academy has received but has not earned at year-end.

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. At June 30, 2007, the Academy had no reserved or designated fund balance.

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 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 function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 2--Stewardship, Compliance and Accountability (continued)

Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the Academy incurred expenditures in the general fund, which were in excess of the amounts budgeted, as illustrated in the supplemental information.

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its funds in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

The investment policy is in accordance with the Revised School code of Michigan and its primary objectives, in priority order, of investments shall be, safety, liquidity and yield.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates financial institutions and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year-end, the Academy's deposit balance of \$314,989 had \$214,989 of bank deposits (checking and savings accounts) that were uninsured and uncollaterized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 4--Capital Assets

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

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2007</u>
Capital assets subject to depreciation				
Leasehold improvements	\$ 213,510	\$ 7,280	\$ -	\$ 220,790
Furniture and equipment	1,439,797	83,838	-	1,523,635
Computer equipment	180,702	84,050	-	264,752
Subtotal	<u>1,834,009</u>	<u>175,168</u>	<u>-</u>	<u>2,009,177</u>
Accumulated depreciation				
Leasehold improvements	25,523	20,390	-	45,913
Furniture and equipment	965,464	129,489	-	1,094,953
Computer equipment	53,640	44,751	-	98,391
Subtotal	<u>1,044,627</u>	<u>194,630</u>	<u>-</u>	<u>1,239,257</u>
Total Net Capital Assets	<u>\$ 789,382</u>	<u>\$ (19,462)</u>	<u>\$ -</u>	<u>\$ 769,920</u>

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

NOTE 5--Operating Leases

During the year ended June 30, 2005, the Academy entered into a lease agreement for a building through June 30, 2015. Rent expense is calculated based on a set amount per square foot of leased space, adjusted for consumer price index each year. The amount expensed under the lease for the year ended June 30, 2007 was \$1,264,341. Minimum estimated annual payments required under the lease are as follows:

<u>For the Year Ended June 30,</u>	<u>Payments</u>
2008	\$ 1,299,181
2009	1,338,157
2010	1,378,301
2011	1,419,650
2012	1,462,240
2013 and after	5,875,529
Total	<u>\$ 12,773,058</u>

The Academy also has leases for its copiers. Monthly lease payments of \$3,051 are based upon a minimum number of images per month. Overages will be charged periodically throughout the year. The amount expensed under the leases for the year ended June 30, 2007 was \$53,406. Minimum estimated annual payments required under the lease are as follows:

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 5--Operating Leases (continued)

<u>June 30,</u>	<u>Payments</u>
2008	\$ 36,612
2009	36,612
2010	36,612
2011	36,612
2012	36,612
Total	<u>\$ 183,060</u>

NOTE 6--Long-term Debt

Long-term debt activity can be summarized as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental Activities				
Capital leases	\$ 16,274	\$ -	\$ 16,274	\$ -
Totals	<u>\$ 16,274</u>	<u>\$ -</u>	<u>\$ 16,274</u>	<u>\$ -</u>

Capital Leases – The Academy had entered into various lease agreements as lessee for financing the purchase of various equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. At June 30, 2007, all capital leases were paid in full.

The total amount of capital leases recorded as assets is \$187,700.

NOTE 7--Contracts

Effective July 1, 2005, the Academy signed a transitional management consulting agreement with Charter Management Alternative, LLC through June 30, 2007, to assist the Academy in the transition from being operated by a management company to self management. The amount expensed for the year ended June 30, 2007 was \$300,000.

The Academy subcontracts all employees from Charter School Services of Michigan, Inc. and reimburse all personnel related expenses.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 8--Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, 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 is covered by insurance held by the employee leasing company discussed. 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.

NOTE 9--Short-Term Debt

During the year, the Academy borrowed \$1,250,000 in a state aid anticipation note. The note bore interest at 4.96 percent and was paid in full at June 30, 2007. The following are the changes in short-term debt:

	Balance July 1, 2006	Additions	Retirements	Balance June 30, 2007
Governmental Activities				
State Aid anticipation note	\$ -	\$ 1,250,000	\$ 1,250,000	\$ -
Totals	<u>\$ -</u>	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>	<u>\$ -</u>

The proceeds from the State Aid anticipation note were used to sustain operations until the Academy received State Aid.

NOTE 10--Subsequent Event

Subsequent to year-end, the Academy borrowed \$1,000,000 at 4.87 percent annual interest rate on a state aid anticipation note.

NOTE 11--Grant Program

All grant programs are subject to a final audit from the grantor agency, the outcome of which may or may not result in disallowed costs that the Academy may be required to pay back.

NOTE 12--Interfund Transfers

Fund	Transfer In	Fund	Transfer Out
Food Service	\$ 124,391	General	\$ 124,391
Athletics	141,443	General	141,443
	<u>\$ 265,834</u>		<u>\$ 265,834</u>

The transfers to the food service and athletics funds were to subsidize those programs.

REQUIRED SUPPLEMENTAL INFORMATION

Pontiac Academy for Excellence
 Budgetary Comparison - General Fund
 For the Year Ended June 30, 2007

	General Fund			Variance Favorable (Unfavorable)
	First Budget	Final Budget	Actual	
Revenue				
Local	\$ 37,000	\$ 98,593	\$ 112,630	\$ 14,037
State	8,071,971	8,077,546	8,078,858	1,312
Federal	1,132,496	1,053,421	988,465	(64,956)
Total Revenues	<u>9,241,467</u>	<u>9,229,560</u>	<u>9,179,953</u>	<u>(49,607)</u>
Expenditures				
Instruction				
Basic programs	3,323,209	3,095,900	3,213,258	(117,358)
Added needs	1,448,496	1,221,555	1,240,402	(18,847)
Support Services				
Pupil	279,626	363,963	358,845	5,118
Instructional staff	339,972	400,313	365,216	35,097
General administration	875,759	848,294	853,409	(5,115)
School administration	363,890	366,252	366,943	(691)
Business	196,086	184,590	185,945	(1,355)
Operation and maintenance	1,819,750	1,806,696	1,799,043	7,653
Pupil transportation services	70,000	61,000	100,103	(39,103)
Central services	148,395	137,989	129,182	8,807
Community services	86,568	108,879	122,889	(14,010)
Outgoing transfers and debt service	239,948	229,143	289,804	(60,661)
Total Expenditures	<u>9,191,699</u>	<u>8,824,574</u>	<u>9,025,039</u>	<u>(200,465)</u>
Excess (Deficiency) of Revenues Over Expenditures	49,768	404,986	154,914	(250,072)
Fund Balance - Beginning of Year	772,736	772,736	772,736	-
Fund Balance - End of Year	<u>\$ 822,504</u>	<u>\$ 1,177,722</u>	<u>\$ 927,650</u>	<u>\$ (250,072)</u>

OTHER SUPPLEMENTAL INFORMATION



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

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

November 9, 2007

Board of Directors
Pontiac Academy for Excellence

We have audited the financial statements of the governmental activities of Pontiac Academy for Excellence as of and for the year ended June 30, 2007, and have issued our report thereon dated November 9, 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 Pontiac Academy for Excellence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pontiac Academy for Excellence's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pontiac Academy for Excellence's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be 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 Pontiac Academy for Excellence'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 Pontiac Academy for Excellence's financial statements that is more than inconsequential will not be prevented or detected by Pontiac Academy for Excellence'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 Pontiac Academy for Excellence's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider those deficiencies described in a letter to the Board of Directors dated November 9, 2007 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pontiac Academy for Excellence'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 those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
Pontiac Academy for Excellence
Page Three

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

Gardner, Provengano, Schaumier & Thomas, P.C.

Certified Public Accountants



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR-A133

November 9, 2007

Board of Directors
Pontiac Academy for Excellence

Compliance

We have audited the compliance of the Pontiac Academy for Excellence with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The major federal programs of the Pontiac Academy for Excellence are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Pontiac Academy for Excellence's management. Our responsibility is to express an opinion on the Pontiac Academy for Excellence's compliance based on our audit.

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

To the Board of Directors
Pontiac Academy for Excellence
Page Two

In our opinion, the Pontiac Academy for Excellence complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Pontiac Academy for Excellence is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Pontiac Academy for Excellence's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pontiac Academy for Excellence's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type or compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses above. We did not identify any deficiencies in internal control over compliance that we consider to material weaknesses as described above.

To the Board of Directors
Pontiac Academy for Excellence
Page Three

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

Gardner, Provenzano, DeKauman & Thomas, P.C.

Certified Public Accountants

Pontiac Academy for Excellence
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2007

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2007
Clusters:								
U.S. Department of Agriculture Passed Through MDE National School Breakfast Program 071970 Breakfast (2006-2007) 061970 Breakfast (2005-2006) Total	10.553	\$ 77,270 1,767 79,037	\$ - 1,767 1,767	\$ - 1,767 1,767	\$ - - -	\$ 73,030 1,767 74,797	\$ 77,270 - 77,270	\$ 4,240 - 4,240
National School Lunch Program 061950 & 071950 Lunch (2006-2007) 051950 & 061950 Lunch (2005-2006) Total	10.555	288,703 6,056 294,759	- 6,056 6,056	- 6,056 6,056	- - -	270,899 6,056 276,955	288,703 - 288,703	17,804 - 17,804
Total Child Nutrition Cluster		373,796	7,823	7,823	-	351,752	365,973	22,044
Other Federal Awards:								
U.S. Department of Education: Passed through MDE: Technology Literacy Challenge Grants Project number 054290 0506 Project number 064290 0506 Project number 064290 0607 Project number 074290 0607 Total Technology Literacy Challenge Grants	84.318	4,733 7,408 5,000 6,486 23,627	5,000 6,615 - - 11,615	2,500 (793) - - 1,707	267 - - - 267	2,233 - 5,000 1,394 8,627	- 793 5,000 4,372 10,165	- - - 2,978 2,978
Title I Project number 061530 0506 Project number 061530 0607 Project number 071530 0607 Total Title I	84.010	504,676 178,132 575,461 1,258,269	438,666 - - 438,666	(71,334) - - (71,334)	(23,047) - - (23,047)	- 178,132 561,400 739,532	48,287 178,132 532,121 758,540	- - (29,279) (29,279)

See Notes to Schedule of Expenditures of Federal Awards.

Pontiac Academy for Excellence
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2007

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2006	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2007
Title V	84.298							
Project Number 060250 0506		11,522	8,906	1,906	-	1,955	49	-
Project Number 060250 0607		2,567	-	-	-	601	2,062	1,461
Project Number 070250 0607		5,115	-	-	-	5,115	4,467	(648)
Total Title V		<u>19,204</u>	<u>8,906</u>	<u>1,906</u>	<u>-</u>	<u>7,671</u>	<u>6,578</u>	<u>813</u>
Improving Teacher Quality	84.367							
Project number 060520 0506		55,710	50,875	10,875	-	15,710	4,835	-
Project number 060520 0607		300	-	-	-	-	300	300
Project number 070520 0607		52,425	-	-	-	49,798	40,600	(9,198)
Total Improving Teacher Quality		<u>108,435</u>	<u>50,875</u>	<u>10,875</u>	<u>-</u>	<u>65,508</u>	<u>45,735</u>	<u>(8,898)</u>
Total non cluster programs passed through MDE		<u>1,409,535</u>	<u>510,062</u>	<u>(56,846)</u>	<u>(22,780)</u>	<u>821,338</u>	<u>821,018</u>	<u>(34,386)</u>
Passed through Oakland County-RESA IDEA:	84.207A							
Project number 070450		151,065	-	-	-	151,065	151,065	-
Project number 070450		2,161	-	-	-	2,161	2,161	-
Total non cluster programs passed Oakland County-RESA		<u>153,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,226</u>	<u>153,226</u>	<u>-</u>
U.S. Dept. of Agriculture								
Passed through MDE Food Distribution: Entitlement Commodities Bonus Commodities Total USDA Non-Cluster Programs	10.550	51,054 1,072 52,126	- - -	- - -	- - -	51,054 1,072 52,126	51,054 1,072 52,126	- - -
Total Federal Financial Assistance		<u>\$ 1,988,683</u>	<u>\$ 517,885</u>	<u>\$ (49,023)</u>	<u>\$ (22,780)</u>	<u>\$ 1,378,442</u>	<u>\$ 1,392,343</u>	<u>\$ (12,342)</u>

See Notes to Schedule of Expenditures of Federal Awards.

PONTIAL ACADEMY FOR EXCELLENCE
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1--Significant Accounting Policies

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

NOTE 2--Grant Section Auditor's Report

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

NOTE 3--Reconciliation of Revenue Reported in the Financial Statements to the Schedule of Federal Expenditures of Federal Awards

Federal expenditures as reported on the Schedule of Expenditures of Federal Awards	\$ 1,392,343
Grants expended in 2005-2006 but not requested	
Technology Literacy Grant 0524290 05060	(267)
Grants expended in 2005-2006 but not requested until 2006-2007	
Title V Project Number 060250 0506	1,906
Technology Literacy Challenge Grants Project Number 0524290 0506	2,500
Improving Teacher Quality Project Number 060520 0506	10,875
Technology Literacy Challenge Grants Project Number 0624290 0506	(793)
Federal revenue as reported in the fund level statements	\$ 1,406,564

PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section 1 – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s)?

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not Considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
84.010	Title I

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk auditee? Yes No

See Notes to Schedule of Expenditures of Federal Awards.

PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section II – Financial Statement Audit Findings

<u>Reference Number</u>	<u>Findings</u>
None	

See Notes to Schedule of Expenditures of Federal Awards.

PONTIAC ACADEMY FOR EXCELLENCE
 SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2007

Section III – Federal Program Audit Findings

Reference Number	Findings
06-01	<p>Program Name – CFDA # 84.010 – Title I</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material noncompliance, reportable condition</p> <p>Criteria – In accordance with the approved grant agreement, actual expenditures reported on the final expenditure report are required to be incurred in accordance with the approved budget and reported as spent.</p> <p>Condition – The final expenditure report submitted on January 9, 2006 did not agree with supporting documentation.</p> <p>Questioned Costs – Unknown</p> <p>Context – The final expenditure report submitted on January 9, 2006 reported expenditures that did not agree with the supporting documentation found. The documentation found to support the Title I expenditures indicated the grant was spent in different functions than reported on the final DS-4044.</p> <p>Cause and Effect – The final expenditure report for this grant award did not report how the expenditures were actually spent.</p> <p>Recommendation – The Academy should use the accounting records to prepare the final DS-4044.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The DS-4044 for the 2004-2005 Title I Grant was prepared by the Imagine Schools which previously managed the Academy. Since separating from them and becoming self managed, the Academy has hired an on staff accountant who will file the DS-4044. The DS-4044 will be completed based on actual accounting records which will accurately state the expenditures for the grant.</p> <p>Current Status – Corrective action was taken. No similar finding noted in 2007 audit.</p>

See notes to Schedule of Expenditures of Federal Awards.