

Eaton Academy

**Financial Report
with Supplementary Information
June 30, 2007**

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Plante & Moran, PLLC
Suite 500
2601 Cambridge Court
Auburn Hills, MI 48326
Tel: 248.375.7100
Fax: 248.375.7101
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Eaton Academy
Detroit, Michigan

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the 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 the budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Eaton Academy
Detroit, Michigan

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 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, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 18, 2007

Eaton Academy

Management's Discussion and Analysis

This section of the 2006-2007 annual financial report presents our discussion and analysis of Eaton Academy's (the "Academy") financial performance during the year ended June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

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

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

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)
Budgetary Information for Major Fund

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.

Eaton Academy

Management's Discussion and Analysis (Continued)

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

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

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

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

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

Eaton Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2007 and 2006.

TABLE I

	Governmental Activities	
	2007	2006
	(in thousands)	
Assets		
Current and other assets	\$ 1,366.2	\$ 1,396.1
Capital assets - Net	460.3	8.2
Total assets	1,826.5	1,404.3
Liabilities - Current liabilities	268.4	280.8
Net Assets		
Investment in capital assets - Net of related debt	460.3	8.2
Unrestricted	1,097.8	1,115.3
Total net assets	<u>\$ 1,558.1</u>	<u>\$ 1,123.5</u>

The above analysis focuses on the net assets (see Table I). The change in net assets of the Academy's governmental activities is discussed below (see Table 2). The Academy's net assets were approximately \$1,558,100 at June 30, 2007. Capital assets, net of related debt totaling approximately \$460,300, compares the original cost, less depreciation of the Academy's capital assets. The remaining amount of net assets was unrestricted.

The unrestricted net assets of approximately \$1,097,800 in 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.

The results of this year's operations for the Academy as a whole are reported in the statement of activities, which shows the changes in net assets for the fiscal years ended June 30, 2007 and 2006 (see Table 2).

Eaton Academy

Management's Discussion and Analysis (Continued)

TABLE 2

	Governmental Activities	
	2007	2006
	(in thousands)	
Revenue		
Program revenue - Operating grants	\$ 202.2	\$ 386.5
General revenue:		
Other	31.4	9.4
State foundation allowance	<u>3,401.3</u>	<u>2,568.8</u>
Total revenue	3,634.9	2,964.7
Functions/Program Expenses		
Instruction	1,629.6	965.5
Support services	1,507.5	1,156.2
Depreciation (unallocated)	<u>63.2</u>	<u>-</u>
Total functions/program expenses	<u>3,200.3</u>	<u>2,121.7</u>
Increase in Net Assets	<u><u>\$ 434.6</u></u>	<u><u>\$ 843.0</u></u>

As reported in the statement of activities, the cost of all of our governmental activities this year was approximately \$3,200,300. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions of approximately \$202,200. The remaining "public benefit" portion of our governmental activities was paid with approximately \$3,432,700 from the state foundation allowance and other local revenues.

The Academy experienced an increase in net assets of approximately \$434,600. Key reasons for the change in net assets were due to General Fund operating surplus created by increased revenue from enrollment from the 2006-2007 year and control of operating expenditures.

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

Eaton Academy

Management's Discussion and Analysis (Continued)

The Academy's Funds

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

As the Academy completed this year, the General Fund reported a fund balance of \$1,097,819, which is a decrease of \$17,501 from last year. The primary reason for the decrease is an increase in instructional expenditures for the elementary start-up.

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

General Fund Budgetary Highlights

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

There were significant revisions made to the 2006-2007 General Fund original budget. The major revisions were due to increased revenue from state funding due to increased enrollment, and increased expenditures to provide the educational program to serve the additional students.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the Academy had \$460,295 invested in capital assets, mostly in furniture and equipment and leasehold improvements.

We present more detailed information about our capital assets in the notes to the financial statements.

Eaton Academy

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the Academy had no long-term debt. This is consistent with all prior years. The Academy continues to control expenses so that no debt is incurred or carried forward into the next fiscal year.

Economic Factors and Next Year's Budgets and Rates

Our appointed officials and administration consider many factors when setting the Academy's 2007-2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2007-2008 budget was adopted in June 2007 based on an estimate of students that will be enrolled in September 2007. Approximately 95 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2007-2008 budget. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. It is possible that state funds may be insufficient to fully fund the appropriation.

Eaton Academy

Statement of Net Assets June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash (Note 3)	\$ 614,091
Due from other governmental units	643,106
Prepaid costs	109,057
Capital assets - Net (Note 4)	<u>460,295</u>
Total assets	1,826,549
Liabilities	
Accrued payroll and other liabilities	92,717
State aid anticipation note (Note 6)	<u>175,718</u>
Total liabilities	<u>268,435</u>
Net Assets	
Investment in capital assets - Net of related debt	460,295
Unrestricted	<u>1,097,819</u>
Total net assets	<u><u>\$ 1,558,114</u></u>

Eaton Academy

Statement of Activities Year Ended June 30, 2007

	Expenses	Operating Grants/ Contributions	Governmental Activities Net (Expense) Revenue and Changes in Net Assets
Functions/Programs			
Primary government - Governmental activities:			
Instruction	\$ 1,629,661	\$ 202,248	\$ (1,427,413)
Support services	1,507,488	-	(1,507,488)
Depreciation (unallocated)	63,199	-	(63,199)
Total governmental activities	<u>\$ 3,200,348</u>	<u>\$ 202,248</u>	(2,998,100)
General revenues:			
State aid not restricted to specific puposes			3,401,322
Other local revenues			<u>31,365</u>
Total general revenues			<u>3,432,687</u>
Change in Net Assets			434,587
Net Assets - Beginning of year			<u>1,123,527</u>
Net Assets - End of year			<u>\$ 1,558,114</u>

Eaton Academy

Governmental Fund Balance Sheet June 30, 2007

	<u>General Fund</u>
Assets	
Cash (Note 3)	\$ 614,091
Due from other governmental units	643,106
Prepaid costs	<u>109,057</u>
Total assets	<u>\$ 1,366,254</u>
Liabilities and Fund Balance	
Liabilities	
Accrued payroll and other liabilities	\$ 92,717
State aid anticipation note (Note 6)	<u>175,718</u>
Total liabilities	268,435
Fund Balance	
Reserved - Prepaid costs	109,057
Unreserved - Undesignated - Reported in General Fund	<u>988,762</u>
Total fund balance	<u>1,097,819</u>
Total liabilities and fund balance	<u>\$ 1,366,254</u>

Eaton Academy

Governmental Fund Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets June 30, 2007

Fund Balance - Governmental Fund \$ 1,097,819

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

Cost of capital assets	\$ 679,564	
Accumulated depreciation	<u>(219,269)</u>	<u>460,295</u>

Net Assets - Governmental Activities **\$ 1,558,114**

Eaton Academy

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2007

	<u>General Fund</u>
Revenue	
Local sources	\$ 31,365
State sources	3,501,372
Federal sources	<u>102,198</u>
Total revenue	3,634,935
Expenditures	
Current:	
Instruction	1,629,661
Support services	1,506,775
Capital outlay	<u>516,000</u>
Total expenditures	<u>3,652,436</u>
Net Change in Fund Balance	(17,501)
Fund Balance - Beginning of year	<u>1,115,320</u>
Fund Balance - End of year	<u><u>\$ 1,097,819</u></u>

Eaton Academy

Governmental Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds **\$ (17,501)**

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

Depreciation expense	\$ (63,199)	
Capitalized capital outlay	<u>515,287</u>	<u>452,088</u>

Change in Net Assets of Governmental Activities **\$ 434,587**

Note I - Summary of Significant Accounting Policies

The accounting policies of Eaton Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies 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 August 20, 1996, the Academy entered into a contract with Central Michigan University to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Central Michigan University board of trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy renewed its contract with Central Michigan University for three years on July 1, 2006, expiring on June 30, 2009. The Academy pays the Central Michigan University Board of Trustees 3.0 percent of state aid as administrative fees. The total administrative fees for the year ended June 30, 2007 payable to the Central Michigan University Board of Trustees were approximately \$103,000.

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

Academy-wide and Fund Financial Statements

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

Note I - Summary of Significant Accounting Policies (Continued)

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

The Academy reports the following major governmental fund:

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

Assets, Liabilities, and Net Assets or Equity

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

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

Capital Assets - Capital assets, which include furniture and equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Leasehold improvements	5 years
Furniture and equipment	5-10 years

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

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

Note 2 - Stewardship, Compliance, and Accountability

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

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

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

Excess of Expenditures Over Appropriations in Budgeted Funds - The Academy did not have significant expenditure budget variances.

Note 3 - Deposits

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 two banks for the deposit of its funds.

Note 3 - Deposits (Continued)

The Academy's cash is subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits for custodial credit risk. At year end, the Academy's deposit balance of \$866,315 had \$656,401 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

At year end, the Academy's deposits were reported in the basic financial statements as cash of \$614,091.

Note 4 - Capital Assets

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

	Balance July 1, 2006	Additions	Balance June 30, 2007
Capital assets being depreciated:			
Leasehold improvements	\$ -	\$ 481,573	\$ 481,573
Furniture and equipment	164,277	33,714	197,991
Total capital assets being depreciated	164,277	515,287	679,564
Accumulated depreciation:			
Leasehold improvements	-	61,293	61,293
Furniture and equipment	156,070	1,906	157,976
Total accumulated depreciation	156,070	63,199	219,269
Net governmental capital assets	<u>\$ 8,207</u>	<u>\$ 452,088</u>	<u>\$ 460,295</u>

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

Note 5 - Lease Commitments

The Academy leases its facilities under an operating lease expiring in June 2011. The Academy's annual lease rate is 10 percent of the per pupil enrollment/state aid grant amount. The Academy is responsible for repairs and maintenance of the facility. The amount expensed under this lease agreement totaled approximately \$287,000 for the year ended June 30, 2007.

Note 6 - State Aid Anticipation Note

On September 15, 2006, the Academy borrowed \$600,000 in a state aid anticipation note. The note bears interest at 5.430 percent and is due in installments through July 31, 2007. At June 30, 2007, \$175,718 remains outstanding.

Note 7 - Management Agreement

The Academy has entered into a management agreement effective through June 30, 2009 with Schoolhouse Services and Staffing, Inc., a for-profit corporation. The management company is responsible for all management, operation, administration, and education of the Academy. All Academy personnel are provided by the management company. The total management fee expensed by Eaton Academy for the year ended June 30, 2007 approximated \$300,000.

Note 8 - Risk Management

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

Required Supplementary Information

Eaton Academy

Required Supplementary Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ -	\$ 28,514	\$ 31,365	\$ 2,851
State sources	1,972,295	3,501,542	3,501,372	(170)
Federal sources	119,200	102,198	102,198	-
Total revenue	2,091,495	3,632,254	3,634,935	2,681
Expenditures - Current				
Instruction:				
Basic programs	671,900	1,479,242	1,349,241	(130,001)
Added needs	254,800	321,697	280,420	(41,277)
Support services:				
Pupil	69,350	47,402	46,662	(740)
Instructional staff	70,750	161,002	157,313	(3,689)
General administration	374,400	435,997	420,933	(15,064)
School administration	134,100	162,354	139,655	(22,699)
Business services	49,250	78,112	74,696	(3,416)
Operations and maintenance	444,100	1,235,624	1,169,351	(66,273)
Central and other	3,000	15,000	14,165	(835)
Total expenditures	2,071,650	3,936,430	3,652,436	(283,994)
Net Change in Fund Balance	19,845	(304,176)	(17,501)	286,675
Fund Balance - July 1, 2006	1,115,320	1,115,320	1,115,320	-
Fund Balance - June 30, 2007	<u>\$ 1,135,165</u>	<u>\$ 811,144</u>	<u>\$ 1,097,819</u>	<u>\$ 286,675</u>

**Report Letter 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
Eaton Academy

We have audited the financial statements of the governmental activities and major fund of Eaton Academy (the "Academy") as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 18, 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 Eaton 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 assurance on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Eaton Academy'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 that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

To the Board of Directors
Eaton Academy

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 controls. We consider the following control deficiency to be a significant deficiency in internal control over financial reporting:

The Academy-wide financial statements require the use of full accrual accounting rather than the modified accrual accounting used in the fund financial statements. The use of full accrual accounting includes the capitalization and depreciation of capital assets. The Academy's records are kept under modified accrual accounting and the adjustments necessary to convert to full accrual accounting for capital assets are not maintained. Management has indicated that it will be attentive to this issue in the future to avoid a similar misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of 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. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Eaton Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with 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*.

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

Plante & Moran, PLLC

October 18, 2007



Plante & Moran, PLLC
Suite 500
2601 Cambridge Court
Auburn Hills, MI 48326
Tel: 248.375.7100
Fax: 248.375.7101
plantemoran.com

October 18, 2007

To the Board of Directors
Eaton Academy
22930 Chippewa
Detroit, MI 48219

Dear Board Members:

We recently completed our audit of the basic financial statements of Eaton Academy for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

State Funding Issues

For the past several years, the State has used single-year budgets for funding schools, and the 2006-2007 fiscal year was no exception. In addition, the State has had to resort to proration in the past and significant one-time fixes in 2007 to balance its budget, putting increased strain on K-12 budgets. In fact, because of the struggling Michigan economy, the State has resorted to one-time changes in school aid funding to fund schools for the past five fiscal years ended June 30, 2003 through 2007.

For the 2006-2007 School Aid Fund budget, the State tapped resources in the pension system and future tobacco settlement funds to fully fund the School Aid Fund budget and prevent proration. This was necessary because the revenues dedicated to the School Aid Fund were not sufficient to pay the commitments of the fund. As late as June 2007, there was still a possibility that the Academy's promised state aid could have had a significant proration. Clearly, school aid was not easy to predict, and this uncertainty made financial management a significant challenge.

With the 2006-2007 fiscal year finally resolved, the governor and legislature have begun working on state budget issues for the 2007-2008 fiscal year. The State's fiscal year began on October 1, 2007. Now that they have replaced the single business tax with the Michigan business tax, they are working on a series of cost/restructuring and revenue increase measures. Many of the cost measures and some of the revenue measures will likely impact public schools and the School Aid Fund. It is likely the goal of the measures will be to add some stability in the cost of operations and in the revenue sources going into the School Aid Fund. Since the focus for the spring and summer has been on the 2006-2007 fiscal year, there is little specific information on the level of school funding or the types of categoricals that will be in place for the 2007-2008 fiscal year.

As the legislation moves forward, the specific implications for each school will become clearer. As funding remains tentative, and there remains the continuing possibility of prorations if the School Aid Fund revenue should fall short of projections, concerns over the financial health of the School Aid Fund highlight the need for the Academy to continue prudent monitoring of revenue and expenditures and to maintain a strong fund balance position.

New Auditing Pronouncements

Several new auditing standards will become effective in the next year, impacting how audits will be conducted and what will be reported by auditors. Below we have summarized the new standards and their potential implications to the Academy's future audits.

Statements on Auditing Standards 104 to 111 - The Risk Assessment Standards - The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111) that will substantially affect the auditing process. The effective date for academy audits will be for the audit of the financial statements for after the year ending June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of: (1) the Academy and its internal control, for purposes of identifying the risks of material misstatement in the financial statements; and (2) what the Academy is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, which is tailored to the unique environment for Michigan schools. As a result, our 2008 audit process will have many new features and elements built in. We will work with the Academy to understand the elements, involve it in the information gathering process, and perform audit tests focused on the risks embedded in the Academy's financial statements. To provide the Academy with as much lead time as possible in the data gathering process, we will review the information needs and provide the Academy the tools necessary in the fall of 2007.

Statement on Auditing Standards 114 - Communication with Those Charged with Governance - The AICPA issued Statement on Auditing Standards (SAS) 114, which will increase the amount of information provided to the board of directors and others charged with governance about the audit process and results. This standard, effective for the June 30, 2008 audit, will provide information describing what an audit is, emphasizing management's role in the financial statement reporting process, identifying issues encountered during the audit, and clarifying what must be communicated in writing. This required communication will be in addition to the financial statements, management letter, and single audit report already received by the Academy.

Government Auditing Standards (2007 Revision) - The Government Accountability Office (GAO) is finalized its revisions to Government Auditing Standards (the "Yellow Book"). These revisions were issued in January 2007. All schools in Michigan are required to be audited under the Yellow Book requirements in addition to the audit standards issued by the Auditing Standards Board. Most of these Yellow Book changes will be effective for the June 30, 2009 school audits. However, the Yellow Book does incorporate the SASs issued by the AICPA and those requirements will be effective based on the effective date of the SAS. The changes unique to the Yellow Book are substantive and will impact audit approach, audit documentation, and audit reporting. Some likely impacts from the changes include:

- Clarified ethics and competency considerations when audit services are performed
- Increased use of "emphasis of matter" comments in the auditor's opinion when unique financial statement matters impact the financial statements
- Increased evaluation of compliance with auditor independence requirements
- Increased expectation of governments to maintain and prepare their financial information for audit

These changes along with the other changes in the auditing standards continue to increase the level of audit effort required by the auditor and the amount of information provided to the Academy. We will work closely with the Academy to simplify and clarify changes as they continue to become effective.

Internal Control Observations and Suggestions

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

Management Fees

The Academy's management agreement states that the management fee is based on 85 percent of funds received by the Academy. During the current fiscal year, the monthly amounts paid by the Academy in management fees did not follow this calculation. Additionally, at the end of the year, additional amounts were owed to the management company based on the agreement. Although the management company has indicated that it does not intend to collect the additional management fees, the Academy should consider revising its management agreement to properly reflect the way the management fee is ultimately paid.

Journal Entry Procedures

During our review of the Academy's journal entries, it was noted the journal entries are not numbered. We encourage the Academy to establish a numbering system for the entries. Additionally, we encourage the Academy to correlate journal entry numbers with supporting documentation retained to ensure that entries have adequate support and a specific trail to support transactions.

Bank Reconciliation Procedures

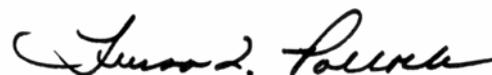
It is our understanding that the treasurer of the board reviews the bank reconciliations at each board meeting; however, there is no documentation to verify that this review is actually performed. We encourage the Academy to create a process of bank reconciliation reviews that would be verifiable by an outside party. This process could include a physical notation on the bank reconciliation for indication of review or a comment in the minutes of the board meeting.

In addition to the comments and recommendations in this letter, our observations and comments regarding Eaton Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the accompanying 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*. This report is included in the financial report, and we recommend that the matters we have noted there receive your careful consideration.

We would like to thank Susan Diehl and the Schoolhouse Services and Staffing, Inc. staff, as well as all of the Academy's personnel, for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



Teresa L. Pollock, CPA